11/7/83 U1880 - 3 A

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404/658-3282

MONTHLY PROJECTIONS
FOR AUGUST

Issued October 28, 1983

RECOVERY COMPLETED WITH A FLOURISH

After contributing a 5.8 percentage point decline to real GNP at annual rates in the fourth quarter of 1982, inventory investments have added 2 percentage points to GNP in the first quarter, 2.9 percentage points in the second quarter, and 2.8 percentage points in the third quarter. After adding an additional 2.5 percentage points in the fourth quarter, inventories will have overtaken sales and the recovery phase of this business cycle will have been completed. By the fourth quarter, nonfarm inventories after adjustment for inflation will be growing at an annual rate of $20 billion. Although inventories still will fluctuate as a result of changes in farm production, the economy now must rely upon underlying expansionary forces.

Even with a rebound in consumer activity during the fall, final sales in the first four quarters of this recovery are expected to grow only 4.4% at a compound annual rate. Such a rate of increase would be good for an expansion year in the 1970s, and would approach average expansionary performance in earlier post-war decades. However, that increase is not terribly robust for a recovery year. Just as the economy increases production to adjust inventories to anticipated sales, it also must provide housing for those young adults who delayed household formations during the recession along with the normal needs for household expansions. While structures are less than 10% of GNP, they comprise 25% of changes in final sales during the first year of recovery. This recovery has been no exception. Once the abnormally rapid component of changes in structures is removed from final sales, underlying growth in the economy appears to be only 3.5%.

Even the above estimate can be subject to some upward bias. For example, consumer activity incorporated in those estimates was achieved with a 0.8 percentage point reduction in the savings rate and with a significant tax reduction. Neither declines in savings rates nor further tax reductions appear likely in the next two years. Indeed, Social Security taxes increase for employer and employee from 6.7% on a $35,700 base in 1983 to 7.0% on a $37,500 base in 1984. The employee contribution to increased Social Security taxes will be refunded with a tax credit that will be available when 1984 income taxes are filed. In the interim, taxes will be rising sharply early in 1984.

Furthermore, producers' durables showed a surprising 13% rate of increase during the first year of economic recovery. Typically, this portion of capital spending shows only modest recovery in the first year before expanding sharply in subsequent years. While improving corporate cash flow, favorable tax treatment of capital goods, and some moderation in interest rates since the recovery began all suggest that producers' durables can maintain that growth path for another year or two, it is unlikely that durable goods will further raise the growth of the economy during its expansion phase. Preliminary third quarter GNP estimates show a significant rebound in structures during the summer, but our own analysis strongly suggests that this was due to especially favorable construction weather in August. The GNP estimates probably will be revised downward when the construction figures for September are available. More substantial gains in structures are unlikely until the second half of 1984.

All of this suggests that the trade sector or government must expand in order to generate growth rates in excess of 4% during the period of expansion. Both of these events are likely to happen, but only after some time has lapsed. State and local governments are now generating operating budget surpluses that will lead to increasing purchases of government services. As agricultural production improves in 1984, a Commodity Credit Corporation no longer will be reducing its inventory holdings of crops to the extent that it is at the end of this year. As a result, purchases of goods and services by the Federal government will show a temporary spurt in the latter half of 1984.

Exports probably will begin expanding because the developing recovery in the world economy will add to factor income earned abroad. However, factor income earned by foreign investors in the United States may nearly offset this influence, especially if interest rates begin rising in the latter half of 1984. While some significant gains from the differential growth rates of factor incomes cannot be fully discounted, any substantial improvement in our trade picture must depend upon increased competitiveness of American goods. That, in turn, depends upon a reduction in the value of the dollar against major trading currencies. Such a reduction has only begun to materialize, and will not develop in vigor until short-term interest rates weaken in the United States. Even if such a weakening develops early in 1984, as expected, the improving competitiveness of American goods should not change our merchandise balances significantly until the latter part of 1984.

Thus, the end of recovery means a few quarters of relatively modest economic growth, followed by an economic expansion that does not appear to be vigorous by historical standards. The reason for less than normal expansion activity depends upon the need of the household sector to raise savings rates to respond to unusually high real rates of interest. Moreover, the likelihood of continuing high real rates suggests that desirable gains in capacity will be closer to 3% than the 4% that has been normal in previous decades. As capacity currently is growing at less than 2%, spending on capital goods can grow in excess of 10% in real terms for up to two years before the 3% expansion path is achieved. At that point, however, further significant gains in capital spending are not likely to materialize.

Inflation is accelerating, as the drought will raise prices at the grocery store by a revised estimate of 6.5% in 1984, up from 2.0% in 1983. Also, fuel prices fell 4% at the producers' level in 1983. Fuel probably will rise by 5% at the producers' level in 1984. The hourly earnings index is expected to accelerate to a 5.2% rate of increase over previous year levels by the end of

1984. This is up from an estimated 4.2% increase from previous year levels at the end of 1983. Higher Social Security taxes will add an extra half percentage point to wage costs per hour worked in 1984. Moreover, productivity is not expected to maintain its rapid rate of increase in 1984, especially as much of this productivity gain is not being generated by the increased use of improved tools. On the other hand, prices in the private economy are not expected to continue to grow 2.5 percentage points more rapidly than unit labor costs. Thus, 1984 will show a much more normal year in generating corporate profits, probably showing increases in the vicinity of 15% for operating profits less tax liabilities. Inflation will increase, but only by about 1.5 percentage points. As the crop problems appear to be only a one-year production phenomenon, further price accelerations in 1985 will not be aided by commodity prices. Thus, inflation in the vicinity of 6% appears to be likely for that year.

Quarterly Profile of GNP

	1983-III	1983-IV	1984-I	1984-II	1984-III	1984-IV
Real	7.9	7.3	3.4	4.0	4.1	4.1
Price	3.4	4.5	5.1	5.5	5.5	5.7
Nominal	11.6	12.1	8.6	9.6	9.8	10.1

Monthly Statistical Highlights
for October 1983

Payroll employment, +275,000; Index of hours worked, +0.3%; Household employment, +253,000; Civilian unemployment rate, 9.3%; Personal income, +1.0%; Savings rate, 4.6%; Personal consumption, +1.0%; Retail sales, +1.4%; Auto sales, 9.6 million; Housing starts, -4.1%; Housing permits, -3.7%; Construction expenditures, +1.0%; Business inventories, +0.5%; Orders for durable goods, +4.6%; Orders for nondefense capital goods, +1.5%; Industrial production, +0.8%; CPI, +0.4%; PPI, +0.5%; Consumption deflator, +0.4%; Leading indicators, +0.4%; M1, 3.3%; M2, 8.4%.

Monthly Statistical Highlights
for November 1983

Payroll employment, +243,000; Index of hours worked, +0.2%; Household employment, +291,000; Civilian unemployment rate, 9.1%; Personal income, +0.7%; Savings Rate, 4.6%; Personal Consumption, +0.7%; Retail Sales, +0.9%; Auto Sales, 9.8 million units; Housing starts, -2.8%; Housing Permits, -5.0%; Construction Expenditures, +0.1%; Business Inventories, +0.8%; Orders for durable goods, -1.1%; Orders for nondefense capital goods, +1.0%; Industrial Production, +0.3%; CPI, +0.3%; PPI, +0.2%; Consumption deflator, +0.3%; Leading Indicators, +0.3%; M1, +4.7%; M2, +8.5%.

Commentary

Employment - With the return of 670,000 Communication Workers, an increase in payroll employment of only 733,000 normally would be a weak performance. However, payroll employment was being held down by a 120,000 reduction in retail workers. This clearly reflected the poor sales performance of August and cannot be expected to continue now that sales have rebounded in September. Also, the workweek in manufacturing reached a four and a half year high, suggesting that significant increases in employment are likely in the months ahead. Moreover, civilian employment increased 382,000 despite the anticipated reduction in agricultural employment. Further reductions in agricultural employment are likely in the months ahead, but that should be insufficient to have any material effect upon total employment. Participation rates for teenagers remain surprisingly low - they are actually below recessionary levels despite a decline in unemployment rates and the natural maturing of the teenage population. While an unexpected blip in teenage participation rates could occur at any time, leading to a surprising increase in the unemployment rate, there is no foundation for maintaining that such an adjustment is imminent.

Although the Communications Workers strike clearly distorted most employment data, the rebound in the hourly earnings index must be viewed with some modest concern. Apparently, the index reached its low point from previous year levels in August and is now trending upward, registering a 3.9% increase from previous year levels in September.

Personal Income and Outlays

Inexplicably, the Communications Workers still appeared to have an impact upon payrolls of distributive workers in September. As a result, a one-time $5 billion increase in payrolls in that sector will be recorded in October. In addition, salary adjustments at the beginning of the fiscal year will add about $3 billion to government payrolls. Along with continued wage gains in the goods producing and service industries, these special conditions insure that personal income once again will grow robustly in October. As the PIK stockpiles are distributed to farmers, significant gains in farm income should begin to develop. Normally, however, such gains in farm income have very little near term effect upon consumer spending.

A surprising increase in service outlays led to very strong consumer support for the economy in September. Indeed, our estimates suggest that real consumer purchases rose almost one percent in the month. Frankly, the pattern of service purchases is incomprehensible. When utilities were being heavily used in July and August, service expenditure slowed. In September, after production by utilities obviously declined, services soared. It appears that a dispersal rather than accrual basis is being used to determine utility spending in the services sector. Food purchases also leaped sharply in September. Perhaps the realization that meat prices eventually will rise sharply may have led to a temporary surge in consumer purchases. At any rate, food is not going to continue to be a double-digit growth item, as it was in September.

Construction

The dry weather in August distorted construction figures for that month. Therefore, the sharp decline in housing starts during September may reflect a return to more normal construction patterns rather than any dramatic reduction in desired housing activity. However, vacancy rates continue to rise even at the currently subdued level of multi-family activity. In addition, sales of single-family homes continue to fall slowly. These forces should lead to a significant reduction in housing starts into the winter months. Because of the lagged response between changes in starts and changes in construction, contributions from residential construction will continue to be positive through the fall. In the winter, however, construction will decline slightly. This will be a major contributor to an estimated slowing in GNP growth at that time.

Preliminary estimates of GNP strongly suggest that nonresidential private construction was abnormally high in August and subsequently declined. This appears to be a reasonable estimate. While the same conclusion should have been reached for public construction, the preliminary GNP numbers suggest that public construction continued to grow in September. Part of this could be the result of a significant gain in federal construction for military purposes. This surge in public construction is not expected to be vigorously sustained.

Business Activity

Weak retail sales in August probably accelerated inventory adjustments during the third quarter. While manufacturing inventories increased by only 0.7% in August, wholesale inventories were up 1.5% while retail inventories expanded a strong 2.1%. Manufacturing inventories are expected to show significant gains into the winter months. Increases in wholesale and retail inventories, however, should be very modest in September, as sales rebound. They will then gradually build up through the fall. Indeed, wholesale inventories already may be adequate to meet current sales levels. Retailers may still wish to add to their inventories, especially as vigorous sales have resumed, but inventory adjustments should be completed by the end of the fourth quarter.

The dip in durable goods orders during September obviously did not include the $4.2 billion of defense orders that were approved the last day of the fiscal year. That surge in orders should significantly distort orders for durable goods in October and cause a subsequent decline in November when defense orders fall to more normal levels. In addition, orders for transportation equipment were surprisingly weak in September as a result of the lack of parts for GM vehicles. As those parts problems subside, the transportation component will show more vigorous gains. Orders for nondefense capital goods continue to grow solidly, clearly supporting a continuation of significant gains in nondefense capital shipments.

Our own analysis suggests that investment for expansion purposes accelerates once capacity utilization crosses 78%. This level of usage was reached in September. Therefore, orders should continue to flow significantly for nondefense capital goods in the months ahead.

One area of modest concern is the slowing of orders for household durables. Those orders have trended downward for two months and are now trailing shipments. Unless orders turn around soon, and declining housing sales do not bode well, shipments soon could become flat.

Prices

Why BLS used end-of-year automobile discounts when such discounts obviously were not meaningful during a period of inventory shortage remains to be explained. Because of those discounts and the subsequent need to bring the new-model prices back to undiscounted levels, there will be little relationship between the PPI for finished goods and the commodity component of the CPI in September and October. After recording a 0.2% increase in September, the PPI will probably accelerate to a 0.5% gain in October. The CPI, on the other hand, probably will decelerate from a 0.5% gain in September to a 0.3% gain in October. The deceleration will be more appropriate than the apparent acceleration of the PPI.

The GNP also is being distorted by a dramatic deterioration in the terms of trade during the second and third quarters. Because most prices are based upon CPI and PPI estimates, and the latter is a domestic producers index, a lag exists between the time that imported goods are priced upon arrival and when those goods finally are reflected in the price indices to final users. Therefore, changes in the terms of trade cause the GNP deflator to temporarily become biased. When the terms of trade were deteriorating, as in the second and third quarters, the GNP deflator is understated. When the terms of trade improve, as expected beginning in the fourth quarter, the GNP deflator will become overstated. Once again, distortions in statistical methodology will give the impression that inflationary pressures are accelerating. Actually, inflationary pressures are intensifying, but the degree of acceleration is far short of what the indices will be showing.

Miscellaneous

Several unusual events caused the August trade figures to be distorted. First, exports of transportation equipment were unusually low, suggesting that the normal flow of ships and aircraft to foreign purchasers was temporarily interrupted. When that flow resumes, exports will again increase significantly. Second, more than $200 million of silver was sent into the United States in August. As much of this silver finally reached the warehouses of the Chicago Exchange, it is unlikely that another surge of such silver imports will develop. Finally, the agricultural terms of trade are moving sharply in favor of the United States. This should have a positive effect upon the merchandise trade balance by the end of this year.

The sharp increase in the workweek was a major contributor to the leading indicators in September. In subsequent months the indicators should slow significantly, especially as our projections suggest that the money supply will grow only slightly more rapidly than inflation. Moreover, sensitive industrial prices are not showing any significant direction, although some of the steel scrap prices have begun to firm again in recent weeks. Therefore, a period of reduced gains for the leading indicators will follow a large increase in September.

Financial Markets

Continued strength in the economy virtually precludes any significant downward movement of interest rates until a slowing trend has been confirmed. Our monthly projections definitely show significant slowing during the winter months, but the credit markets still are reeling from the unexpected burst in activity that developed in September and October. The Federal Reserve's policy of gradual constraint during this period of significant economic expansion has led to upward pressures upon sensitive short-term interest rates. The magnitude of this restraint is readily obvious, as the September 90-day CD rates were lower than the federal funds rate. As measured by M1, money growth is expected to remain modest until the spring of 1984. Growth of M2 is creating a modest problem, as further deregulation of certificates has led to a surge for some time deposits at the expense of nonmoney instruments. While our estimates suggest that M2 will not grow more rapidly than the outer range of its targets in October, it is possible that M2 could reach double-digit growth rates in that month. Until this monetary aggregate settles down, the Federal Reserve is not likely to significantly reduce its restraints.

Of course, the household sector provided even less support for the credit markets early in the fourth quarter than we had anticipated. Moreover, housing continues to require increased mortgage funds, even if housing sales are starting to subside. The need for more construction funding should continue to grow until early 1984.

Government deficits are receding in line with our anticipations, continuing to fall toward the $155 billion range during the first quarter of 1984. Of course, the rapid increase in public construction might mean that state and local surpluses are being trimmed. However, this can only partially offset the significant improvement in deficits at the federal level. Corporate cash flow remains very strong, but corporate use of funds is starting to rebound as inventories continue to climb. Therefore, the maximum net corporate contribution to the credit markets probably already has been passed.

Because money growth almost certainly will slow as economic activity eases from its recovery burst, leading to some restraint by the Federal Reserve, and because declining government deficits are more substantial than the reduced corporate support for credit markets, one further downward movement in interest rates remains likely. The Wojnilower point, where interest rates will be trending inevitably higher, should not be reached until the reduced growth from expansion leads to no further declines in government deficits. Thus, interest rates should fall significantly during the first quarter of 1984. Politics may intervene then to prevent sensitive short-term rates from rising significantly in the latter months of 1984, even as the demand for money rebounds slowly. However, such political conditions should not be sufficient to restrain an upward movement in long-term rates, which is likely late in the year. Although our procedures project an increase in the prime rate near election, political reality may prevent such an occurence from developing.

Equity Markets

The surge in economic activity that occurred in September and October appears to have significantly raised operating profits less tax liabilities. Because the stock market has become enamored with interest rate movements, and those movements were not favorable, the equity markets have not responded to this improved earnings environment. Therefore, the potential for one more explosive move upward in equity values remains likely when interest rates begin declining early in 1984. Because of these improved earnings, our formula suggests that the Dow Jones should average approximately 1400 in 1984. This level might be achieved as early as the winter quarter. Then politics will become too important to use simple earnings and interest rate formulas to determine equity values.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	90319	90152	106.3	106.1	101285	101285	9.5	9.5	155.2	155.2
August	90523	89735	106.6	105.2	101426	101563	9.4	9.5	156.0	155.0
September	90706	90468	106.9	107.2	101339	101945	9.4	9.3	156.9	155.9
October	91025	90743*	107.3	107.5*	101846	102198*	9.2	9.3*	157.4	156.5*
November	91368	90986	107.6	107.7	102291	102489	9.0	9.1	158.2	157.2
December	91705	91188	107.8	107.9	102703	102732	8.9	9.0	159.0	157.9
January 1984	91896	91367	108.1	108.1	102955	102950	8.8	9.0	159.7	158.5
February	92071	91552	108.3	108.3	103048	103148	8.7	9.0	160.3	159.2
March	92243	91695	108.6	108.4	103165	103317	8.6	9.0	161.0	159.9
April	92488	91884	108.9	108.6	103499	103547	8.5	9.0	161.7	160.6
May	92693	92073	109.1	108.8	103767	103735	8.5	9.0	162.5	161.3
June	92898	92258	109.3	109.0	104038	103957	8.5	8.9	163.3	162.1
July	93056	92427	109.5	109.3	104175	104159	8.5	8.9	163.9	162.8
August	93292	92601	109.7	109.5	104362	104422	8.5	8.8	164.5	163.5
September	93531	92845	109.9	109.8	104558	104710	8.5	8.7	165.2	164.2
October	93684	93082	110.1	110.1	104685	104898	8.4	8.7	166.0	165.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	2.754	2.747	1.679	1.674	107.4	109.0	2.360	2.351	2.253	2.242
August	2.775	2.756	1.690	1.681	110.7	117.3	2.375	2.356	2.264	2.238
September	2.798	2.781	1.706	1.690	116.0	106.5	2.390	2.378	2.274	2.272
October	2.820	2.809*	1.720	1.709*	115.9	109.6*	2.409	2.403*	2.293	2.293*
November	2.841	2.829	1.730	1.721	118.5	110.7	2.429	2.421	2.311	2.310
December	2.862	2.852	1.741	1.733	120.1	112.0	2.448	2.441	2.328	2.329
January 1984	2.874	2.864	1.754	1.744	118.3	113.0	2.463	2.449	2.345	2.336
February	2.897	2.886	1.767	1.756	119.4	115.9	2.480	2.462	2.361	2.346
March	2.921	2.906	1.781	1.766	124.4	118.9	2.497	2.480	2.373	2.361
April	2.940	2.927	1.793	1.778	124.0	119.1	2.515	2.500	2.391	2.381
May	2.955	2.944	1.802	1.790	125.2	119.7	2.534	2.515	2.409	2.395
June	2.972	2.966	1.811	1.803	126.2	126.1	2.553	2.535	2.427	2.409
July	2.991	2.988	1.823	1.817	119.6	125.2	2.565	2.554	2.445	2.429
August	3.010	3.007	1.835	1.829	118.2	124.6	2.577	2.571	2.459	2.446
September	3.029	3.028	1.847	1.843	117.4	127.6	2.590	2.590	2.473	2.462
October	3.053	3.054	1.868	1.862	116.5	130.0	2.611	2.612	2.495	2.482

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	259.0	258.2	87.12	88.23	22.94	21.58	22.92	22.57
August	261.1	259.9	87.55	89.98	22.76	23.03	23.05	22.57
September	263.1	262.0*	89.27	89.50	23.11	24.01	23.02	23.35
October	265.0	264.3	91.13	93.65*	23.62	24.36*	23.37	23.49*
November	266.9	265.6	92.65	92.58	24.15	24.37	23.65	23.65
December	268.1	267.5	94.29	94.46	24.41	25.12	23.82	23.82
January 1984	270.2	268.9	96.15	95.63	24.72	25.43	24.01	24.05
February	271.9	270.2	94.45	96.27	24.55	25.82	24.20	24.26
March	273.3	272.1	96.35	95.95	24.93	24.97	24.38	24.43
April	275.0	273.3	97.22	97.46	25.15	26.02	24.60	24.69
May	277.4	275.5	97.76	98.23	25.46	26.43	24.83	24.82
June	279.5	277.6	99.53	100.06	25.72	26.91	25.01	25.08
July	283.7	279.2	101.23	99.95	25.95	26.55	25.16	25.26
August	285.1	282.3	100.10	102.23	25.73	27.02	25.30	25.53
September	286.5	283.9	102.43	103.85	26.15	27.17	25.48	25.59
October	289.7	286.1	104.14	106.11	26.63	27.82	25.65	25.84

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	510.7	505.8	5.43	5.68	147.2	150.3	75.1	76.7
August	513.3	512.1	5.42	5.44	148.2	151.4	75.5	77.1
September	516.2	515.6*	5.44	5.28	149.3	153.7	76.0	78.1
October	518.4	518.3	5.63	5.47*	150.3	154.9*	76.5	78.6*
November	521.9	522.2	5.75	5.63	151.2	155.3	76.9	78.7
December	525.3	528.3	5.95	5.84	152.1	155.6	77.3	78.8
January 1984	528.9	531.2	6.08	6.01	152.8	155.9	77.6	78.9
February	532.3	533.4	6.13	6.15	153.5	156.3	77.9	79.0
March	534.8	536.1	6.19	6.12	153.3	156.4	77.7	79.0
April	537.3	537.6	6.32	6.23	153.8	156.7	77.9	79.1
May	541.1	540.0	6.48	6.35	154.4	157.0	78.2	79.2
June	545.9	543.7	6.65	6.51	154.7	157.4	78.3	79.3
July	550.3	548.2	6.75	6.66	154.9	158.1	78.4	79.5
August	553.7	552.6	6.86	6.73	155.1	158.5	78.4	79.6
September	557.0	555.4	6.95	6.87	155.3	159.1	78.5	79.7
October	565.2	559.7	7.11	7.01	155.9	159.7	78.7	79.8

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	2190.1	2174.8	284.5	287.1	810.3	813.8	1095.3	1076.9	1022.1	1019.2
August	2201.5	2174.2	287.6	277.7	811.8	816.8	1102.1	1079.7	1023.9	1012.9
September	2210.9	2207.5	290.4	287.8	813.4	825.5	1107.1	1094.1	1023.9	1025.5
October	2229.6	2228.7*	294.1	296.5*	818.6	830.7*	1116.9	1101.5*	1028.8	1032.2*
November	2246.7	2245.3	296.2	301.8	824.8	834.1	1125.7	1109.4	1032.7	1036.6
December	2263.8	2260.5	298.3	303.8	831.0	839.1	1134.5	1117.6	1036.3	1040.2
January 1984	2280.3	2270.4	301.1	303.2	833.9	841.4	1145.3	1125.8	1039.9	1040.9
February	2295.9	2280.1	303.8	302.4	836.3	844.1	1155.8	1133.6	1042.4	1040.5
March	2307.6	2294.8	306.5	303.4	838.7	848.9	1162.4	1142.5	1043.0	1041.5
April	2325.6	2314.3	309.1	308.1	844.7	855.5	1171.8	1150.7	1047.3	1046.2
May	2343.0	2328.3	310.7	309.6	850.4	860.9	1181.9	1157.8	1050.8	1048.5
June	2360.6	2341.6	312.3	309.8	856.2	866.3	1192.1	1165.5	1054.2	1050.1
July	2380.2	2361.1	314.7	314.3	860.7	873.7	1204.8	1173.1	1058.3	1053.8
August	2392.3	2378.3	316.2	317.3	865.1	879.4	1211.0	1181.6	1059.0	1056.3
September	2406.2	2393.9	317.8	319.1	869.8	884.6	1218.6	1190.2	1060.0	1058.0
October	2427.7	2413.0	319.5	322.1	875.4	891.4	1232.8	1199.5	1064.5	1061.5

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	98.66	99.52	12.93	13.23	9.7	9.7	66.57	66.98	19.16	19.31
August	99.34	97.96	12.90	13.37	10.0	8.8	66.69	67.16	19.75	17.43
September	99.79	99.48	12.99	13.47	10.1	9.1	66.82	67.80	19.98	18.21
October	100.64	100.87*	12.93	13.53*	10.3	9.6*	67.25	68.23*	20.46	19.11*
November	101.15	101.73	13.16	13.62	10.2	9.8	67.76	68.51	20.23	19.60
December	101.83	102.36	13.27	13.69	10.2	9.8	68.27	68.92	20.29	19.75
January 1984	102.38	102.48	13.43	13.65	10.3	9.7	68.51	69.11	20.44	19.72
February	103.10	102.62	13.50	13.68	10.5	9.6	68.71	69.33	20.89	19.61
March	103.69	103.12	13.53	13.73	10.7	9.6	68.90	69.72	21.26	19.67
April	104.18	104.17	13.48	13.82	10.7	9.8	69.40	70.26	21.30	20.09
May	104.82	104.79	13.45	13.92	10.8	9.8	69.86	70.71	21.51	20.16
June	105.25	105.25	13.58	14.00	10.7	9.7	70.34	71.15	21.33	20.10
July	105.89	106.36	13.82	14.09	10.7	9.9	70.71	71.76	21.36	20.51
August	106.42	107.16	13.80	14.21	10.8	10.0	71.07	72.23	21.55	20.72
September	106.87	107.78	13.80	14.35	10.9	10.0	71.32	72.65	21.75	20.78
October	107.52	108.67	13.91	14.47	10.9	10.1	71.78	73.21	21.83	20.99

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	1.765	1.804	1.154	1.032	1.726	1.782	262.8	269.5	165.3	174.5
August	1.803	1.909	1.196	1.141	1.685	1.652	264.6	276.1	165.8	178.8
September	1.676	1.652	1.178	1.009	1.582	1.504	267.6	276.4*	167.0	178.7*
October	1.621	1.584*	1.105	0.993*	1.493	1.449*	270.1	279.1	168.1	179.8
November	1.596	1.539	1.086	0.967	1.461	1.376	272.3	279.4	169.1	179.3
December	1.619	1.493	1.112	0.942	1.480	1.342	273.9	279.1	169.8	178.6
January 1984	1.572	1.453	1.065	0.911	1.443	1.297	274.6	280.2	169.8	178.7
February	1.584	1.469	1.094	0.926	1.451	1.293	274.7	277.7	169.4	176.4
March	1.542	1.468	1.075	0.922	1.406	1.306	274.8	277.6	168.9	175.7
April	1.496	1.517	1.016	0.955	1.311	1.323	275.7	278.2	169.0	175.5
May	1.445	1.529	0.968	0.973	1.265	1.342	276.6	279.8	169.3	175.9
June	1.433	1.571	0.974	1.002	1.269	1.374	277.7	281.7	169.6	176.4
July	1.492	1.646	1.012	1.063	1.312	1.421	278.1	283.8	169.5	177.0
August	1.509	1.617	1.024	1.035	1.348	1.428	278.6	286.1	169.5	177.7
September	1.522	1.653	1.038	1.052	1.345	1.443	279.1	288.8	169.6	~~178.7~~
October	1.565	1.679	1.063	1.055	1.397	1.472	281.9	291.2	170.5	179.5

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	99.0	100.3	48.9	51.1	114.9	118.1
August	98.5	103.3	50.1	52.6	116.0	120.2
September	98.8	100.8*	51.0	54.0*	117.8	121.6*
October	99.3	101.3	52.2	54.6	118.6	123.2
November	99.9	102.2	52.9	55.2	119.5	122.0
December	100.7	102.8	53.5	55.5	119.7	120.8
January 1984	101.2	103.5	54.6	55.9	118.8	118.7
February	101.5	104.0	55.7	56.5	117.5	117.2
March	101.8	104.3	56.9	56.8	116.1	116.5
April	103.0	104.8	57.3	57.2	115.4	116.2
May	103.0	105.4	58.0	57.5	115.6	116.9
June	103.1	106.1	58.8	58.1	115.8	117.5
July	104.3	106.8	59.3	58.6	114.5	118.4
August	105.0	107.6	59.8	59.3	113.8	119.2
September	105.7	108.5	60.2	60.0	113.2	120.3
October	106.3	109.3	60.8	60.7	114.8	121.2

Fore. = August Forecast
C.E. = Current Expectations
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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	298.6	298.8	285.1	285.3	316.7	316.6	2.1639	2.1569
August	299.6	299.9	286.2	286.4	317.0	317.5	2.1762	2.1638
September	300.7	301.4	287.0	287.0	317.6	317.2	2.1885	2.1704
October	301.7	302.6*	287.9	288.4*	319.5	319.6*	2.1973	2.1798
November	302.8	303.5	288.8	289.0	320.4	320.5	2.2039	2.1875
December	303.7	304.4	289.7	289.8	321.6	321.6	2.2099	2.1952
January 1984	305.0	305.5	291.1	291.0	323.0	323.0	2.2208	2.2033
February	306.5	307.0	293.0	292.5	324.1	324.1	2.2325	2.2144
March	308.3	308.6	294.8	294.1	325.2	325.0	2.2460	2.2265
April	309.6	309.9	295.3	295.5	326.5	326.2	2.2518	2.2356
May	310.9	311.1	296.2	296.7	327.8	327.5	2.2596	2.2441
June	312.3	312.2	297.5	297.5	329.1	328.9	2.2683	2.2533
July	313.6	313.7	299.0	299.0	330.5	330.2	2.2781	2.2639
August	314.9	315.1	300.6	300.2	331.9	331.7	2.2878	2.2747
September	316.2	316.6	302.1	301.2	332.3	332.4	2.2972	2.2853
October	317.8	317.9	303.8	302.8	335.2	335.2	2.3121	2.2956

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	214.3	213.7	178.5	178.6	214.8	214.8	225.6	224.5	159.0	154.5
August	215.0	214.7	179.1	178.9	215.0	215.8	226.9	225.3	159.6	154.4
September	215.9	215.1*	179.6	180.1*	215.7	216.8*	228.2	225.8*	160.2	154.7*
October	216.7	215.9	180.0	180.8	216.5	217.5	229.2	226.5	160.7	155.2
November	217.6	216.6	180.5	181.5	217.4	218.2	230.1	227.3	161.0	155.8
December	218.5	217.3	181.1	182.0	218.3	218.9	231.1	228.1	161.3	156.3
January 1984	219.3	218.1	181.5	182.4	219.0	219.8	232.2	228.9	161.7	156.8
February	220.2	219.1	181.9	183.0	219.7	221.0	233.6	229.8	162.2	157.4
March	221.2	220.3	182.4	183.6	220.5	222.8	235.0	230.7	162.7	158.0
April	222.1	221.2	182.8	184.2	221.3	223.9	236.0	231.6	163.1	158.5
May	223.0	222.1	183.3	184.7	222.4	224.7	236.9	232.6	163.4	159.1
June	223.9	223.0	183.9	185.3	223.5	225.6	237.8	233.6	163.7	159.7
July	224.9	224.1	184.4	185.9	224.3	227.0	239.0	234.7	164.1	160.3
August	225.9	225.1	185.0	186.5	225.3	228.1	240.3	236.0	164.4	161.0
September	227.0	226.3	185.6	187.2	226.3	229.3	241.5	237.2	164.7	161.6
October	228.1	227.3	186.5	188.5	227.4	230.4	242.7	238.1	165.3	162.2

Fore. = August Forecast
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	-5710	-6360	156.9	158.3	3335	3329	1541	1543	11.6	13.6
August	-5346	-7190	157.7	158.1	3374	3359	1550	1552	14.5	15.5
September	-5592	-5807	158.0	159.8	3405	3403	1556	1567	18.1	19.5
October	-4865	-5976*	157.8	160.4*	3431	3437	1561	1577	17.8	17.3
November	-5582	-6285	158.3	160.8	3460	3460	1570	1582	17.2	17.0
December	-7115	-6467	158.8	161.5	3488	3485	1578	1588	17.5	16.5
January 1984	-5564	-5963	159.6	161.8	3520	3511	1585	1593	16.1	16.6
February	-5927	-6243	160.5	161.5	3545	3528	1588	1593	13.7	17.3
March	-5872	-6437	161.7	162.1	3572	3559	1590	1598	12.9	17.0
April	-5015	-7263	161.5	162.4	3596	3587	1597	1604	15.4	17.1
May	-5629	-7048	162.4	162.9	3626	3614	1605	1610	16.1	17.8
June	-6847	-6827	163.2	163.3	3655	3644	1611	1617	16.9	18.9
July	-5575	-5682	163.9	163.8	3679	3672	1615	1622	17.0	19.5
August	-6463	-6345	164.6	165.0	3700	3703	1617	1628	17.3	19.3
September	-7026	-6563	165.1	165.9	3720	3727	1618	1631	17.6	20.6
October	-6161	-6269	165.7	166.4	3759	3761	1626	1638	18.8	20.5

Fore. = August Forecast
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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	195.3	195.0	515.6	515.5	2129.3	2126.3	9.37	9.37	9.26	9.26
August	195.8	195.8	515.3	516.7	2140.5	2136.9	9.46	9.56	9.44	9.51
September	196.4	197.0	515.7	517.2	2151.9	2145.3	9.45	9.45	9.52	9.15
October	197.7	197.9*	519.4	518.6*	2169.7	2159.7*	9.70	9.57*	9.80	8.88*
November	199.0	198.7	523.1	520.6	2188.2	2174.5	9.75	9.32	9.87	8.75
December	200.2	199.6	527.5	522.8	2207.5	2189.1	9.63	8.93	9.82	8.62
January 1984	201.2	200.3	529.4	524.2	2221.4	2201.5	9.55	8.65	9.61	8.27
February	202.3	201.2	531.7	526.3	2238.9	2215.8	9.46	8.37	9.14	7.89
March	203.4	202.3	534.1	529.2	2255.6	2232.4	9.38	8.45	8.89	8.02
April	204.6	203.2	537.5	534.8	2274.4	2248.9	9.27	8.42	8.85	8.06
May	205.8	204.5	540.4	535.4	2291.8	2269.7	9.18	8.63	8.81	8.15
June	207.0	205.8	543.5	539.2	2309.7	2290.3	9.23	8.85	8.88	8.43
July	208.2	207.3	545.7	543.1	2326.4	2311.4	9.16	8.89	8.68	8.40
August	209.3	208.5	548.0	546.5	2340.5	2331.6	9.03	8.84	8.62	8.47
September	210.2	209.8	550.6	550.1	2354.3	2351.6	9.00	8.89	8.55	8.55
October	211.5	211.0	554.3	553.2	2372.8	2370.7	9.07	8.87	8.70	8.42

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
July 1983	12.15	12.15	9.53	9.53	9.25	9.25	9.50	9.50	10.50	10.50
August	12.33	12.51	9.68	9.72	9.38	9.54	9.72	9.77	11.18	10.89
September	12.50	12.37	9.85	9.58	9.46	9.24	9.85	9.39	11.50	11.00
October	12.61	12.24*	9.96	9.65*	9.79	9.09*	10.15	9.21*	11.79	11.00*
November	12.69	12.22	10.06	9.72	9.85	9.02	10.21	9.13	12.00	11.00
December	12.73	11.89	10.06	9.39	9.72	8.82	10.18	8.96	12.00	10.86
January 1984	12.59	11.76	9.88	9.24	9.59	8.62	9.86	8.78	12.00	10.50
February	12.46	11.65	9.78	9.04	9.48	8.41	9.72	8.57	12.00	10.50
March	12.34	11.63	9.63	9.07	9.42	8.48	9.65	8.65	12.00	10.50
April	12.19	11.72	9.51	9.02	9.35	8.47	9.61	8.68	11.86	10.50
May	12.15	11.76	9.42	9.08	9.15	8.78	9.49	8.92	11.50	10.50
June	12.14	11.85	9.41	9.15	9.18	8.95	9.55	9.10	11.50	10.50
July	11.95	11.94	9.25	9.22	9.20	9.03	9.56	9.16	11.50	10.50
August	11.78	12.04	9.12	9.29	9.06	9.16	9.39	9.31	11.50	10.73
September	11.75	12.01	9.05	9.35	9.05	9.07	9.28	9.25	11.50	11.00
October	11.77	12.02	9.12	9.35	9.29	9.01	9.42	9.18	11.50	11.00

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2/7/84 U1880 - 3 A

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MONTHLY PROJECTIONS
FOR SEPTEMBER

Issued January 27, 1984

WEATHER AND AGRICULTURE DISTORT GNP PERFORMANCE

Because of declines in agricultural production, the growth of GNP was reduced by 0.5 percentage points in the third quarter and 0.6 percentage points in the fourth quarter. A return to higher agricultural production probably will add a full percentage point to GNP growth during the first quarter of 1984.

Winter weather also has altered the timing of changes in GNP. The loss of a vegetable crop, a 23% reduction in citrus production in Florida, and a dramatic but temporary, decline in egg production related to the cold has had some modest effects upon agricultural production, but some more dramatic impact upon prices. Weather-related price changes probably will add a percentage point to grocery prices in 1984 and about 0.2 percentage points to total inflation. In addition, sharp increases in fuel oil prices will create a near-term acceleration in consumer prices. The wholesale price of fuel oil has increased by nearly 25% in the last six weeks. However, this price change is expected to be temporary, as the spot price of crude petroleum has barely increased during this cold weather. For that reason, most of the increase in fuel oil prices probably will be reversed when warmer weather arrives in the spring. Nevertheless, petroleum prices probably will not decline in the spring, which previously appeared likely. In addition, some damage to oil refineries on the Gulf Coast diminished the supply of gasoline. Although some further weakness still is likely in retail gasoline prices, the degree of decline from current levels is not expected to be significant. Moreover, prices for petroleum products probably will rise this fall. When all these effects are factored in, the cold weather probably added 0.4 percentage points to inflation in 1984, although most of this impact will be apparent during the winter months.

Equally important is the dramatic increase in utility consumption. Consumers paid $1.7 billion more for utilities in December than if the weather was normal. This accounted for the bulk of the $19.1 billion increase in service expenditures during December. A continuation of the cold weather will maintain strong gains in service expenditures during January. Then, an expected return to more seasonal weather in February should cause little growth in that component. In effect, some service expenditures were transferred from the spring to the fourth quarter because of the weather. However, the weather may also have sharply reduced grocery sales in December. Indeed, total grocery expenditures fell by 1.5% despite a 0.5% increase in grocery prices. This drop in volume probably occurred late in the month as especially severe weather caused many consumers to exhaust their "pantry inventories" rather than maintain their normal grocery shopping schedules. A rebound in sales should be expected in January and February to replace these depleted home inventories. Inclement weather also caused production delays, estimated at 0.3% of industrial production in December. Indeed, most of the weakness reported for December appears to be weather-related rather than behaviorally oriented. Therefore, rebounds in those sectors should develop when the weather improves.

At the present time, no serious initiatives are expected to limit the government deficit. Although the administration is estimating a deficit of $179 billion, a record N-I-A deficit of more than $193 billion suggests that the administration's estimates could be $10 billion too low. Certainly, there is little evidence that strong economic recovery is generating receipts more rapidly than the growth of government expenditures. In fact, taxable corporate profits during the fourth quarter declined, although the source of this weakness appears to be moderation in industrial prices leading to more favorable inventory evaluation adjustments than in previous months. Stronger growth in taxable corporate profits clearly is anticipated in 1984, but continued weakness in petroleum prices should cause excise taxes to experience little growth.

The monthly analysis clearly shows that productivity experienced little change in the fourth quarter. This is not unusual at this stage in the cycle. More than normal productivity gains usually are achievable early in a recovery as under-utilized personnel finally can be used effectively. In addition, most of the employment recalls are for production workers who lead directly to increased output, while headquarters staffs require little adjustment. Once the first wave of recalls is completed, however, headquarters expansion commences. This apparently happened during the fourth quarter. Usually, the slow-down in productivity gains persists for only one or two quarters before a more balanced employment mix reveals the more sustainable underlying productivity gains, which we currently believe to be approximately 1.5% per year.

Quarterly Profile of GNP

	1983-IV	1984-I	1984-II	1984-III	1984-IV
Real	4.5	5.5	4.5	3.8	3.0
Price	3.9	5.7	5.2	5.8	5.6
Nominal	8.6	11.0	10.0	9.8	8.8

Monthly Statistical Highlights
for January 1984

Payroll employment, +166,000; Index of hours worked, +0.2%; Household employment, +182,000; Civilian unemployment rate, 8.2%; Personal income, +0.6%; Savings rate, 4.4%; Personal consumption, +1.0%; Retail sales, +0.9%; Auto sales, 10.5 million; Housing starts, +4.2%; Housing permits, -3.5%; Construction expenditures, +0.8%; Business inventories, +0.7%; Orders for durable goods, +1.2%; Orders for nondefense capital goods, +1.1%; Industrial production, +0.7%; CPI, +0.6%; PPI, +0.1%; Consumption deflator, +0.6%; Leading indicators, +0.6%; M1, 7.9%; M2, 7.7%.

Monthly Statistical Highlights
for February 1984

Payroll employment, +132,000; Index of hours worked, +0.2%; Household employment, +145,000; Civilian unemployment rate, 8.2%; Personal income, +0.7%; Savings Rate, 4.6%; Personal Consumption, +0.5%; Retail Sales, +0.7%; Auto Sales, 10.5 million units; Housing starts, +5.2%; Housing Permits, +4.8%; Construction Expenditures, +2.4%; Business Inventories, +0.7%; Orders for durable goods, +1.6%; Orders for nondefense capital goods, +2.5%; Industrial Production, +0.3%; CPI, +0.5%; PPI, +0.6%; Consumption deflator, +0.4%; Leading Indicators, -0.2%; M1, +10.8%; M2, +10.0%.

Commentary

Employment - Payroll employment slowed to a gain of 231,000 in December, although the absence of significant gains in retail trade employment should not persist very long. Employment of production workers in manufacturing began to grow more slowly than total manufacturing employment. This addition to overhead probably accounts for much of the slowing in productivity gains late in the year. Initial unemployment claims continue to show an irregular downward pattern, suggesting that payroll employment is continuing to grow substantially. However, two consecutive months of adverse weather conditions are expected to reduce construction workers. Therefore, some slowing in payroll employment is expected early in 1984.

The unemployment rate has fallen much more sharply than expected. In the first twelve months of recovery, the labor force increased at a monthly rate of slightly more than 100,000, more than 50,000 per month below anticipations. This reduced labor force growth led to a 0.5 percentage point decline in the unemployment rate. To be sure, the teenage population is declining sharply. However, teenage participation rates also are not rising. About half the slowing in the teenage labor force appears to be the result of unusual participation rates. Female participation rates also are lower than anticipated. Apparently, the surge in females seeking work is beginning to subside. A more orderly advance in the female participation rate, perhaps as small as 0.2 percentage points per year, now may be developing. These adjustments to participation rates have been incorporated in our forecasting procedures.

The Hourly Earnings Index began accelerating in December, although the increase from previous year levels remains at a relatively low 3.7%. During the latest three months, the Hourly Earnings Index accelerated slightly to a 4.4% annual rate. Wage concessions appear to be diminishing, but the well-behaved performance of the CPI has continued to restrain wage gains in manufacturing and transportation. As the CPI begins to accelerate in 1984, the Hourly Earnings Index also is expected to rebound.

Personal Income and Outlays - Three special conditions are developing in personal income during January. First, the surge in farm income during the fall, which was related to PIK distributions, will not persist in the winter now that those distributions are diminishing. On the other hand, farm income tends to rise in the early winter months as animal slaughters intensify. Thus, farm production will rebound but earnings will replace government transfers in farm income. Second, federal employees received a 3.5% pay increase in January. This not only will add slightly more than $3 billion to the wage and salary component, but it also will add 0.30 percentage points to the GNP deflator. Third, the increase in the Social Security base normally is accrued as if the ultimate payment of Social Security began in January. Thus, employee contributions to Social Security will be rising by approximately $3 billion. Of course, this will be more than offset by the 3.5% increase in Social Security payments to those receiving retirement benefits. In prior Januarys, the Social Security tax was increased, but there was no offset in the form of increased transfer payments. Thus, personal income in January appeared to be depressed. This January, however, personal income is being enhanced by the combined effect of these events.

The strong growth in outlays during December was largely the result of sharp increases in utility payments. Those increased utility payments will be maintained in January. When the weather reverses, expected in February, service expenditures should show little growth. Typically, this involuntary consumption leads to reduced savings when it occurs followed by enhanced savings in the subsequent quarter. Our projections do not fully show this, although it is possible that second quarter estimates of auto sales are overstated.

Retail Sales - Although the report on consumer outlays for December confirmed a sharp drop in nondurable sales, it strongly indicated that estimates of outlays for durable goods in December were inappropriate in the retail sales report for that month. Using normal ratios for converting retail activity to consumer outlays, the retail sales for December may need to be revised upward by 0.7 percentage points. Furthermore, the reduction in grocery store sales probably was related to diminished grocery store visits due to inclement conditions. People certainly did not decide to reduce real purchases of food by 2 percentage points in December. Therefore, a rebound in grocery sales and in restaurant sales is expected in January and February. These combined gains should add to retail sales in those months. At the present time, there is little evidence that the consumer has turned more cautious. However, slower consumer support for the economy is anticipated in the spring as the household sector replenishes the savings that had been depleted to meet unexpectly high utility bills.

Construction - The decline in housing starts in December almost totally is related to weather conditions. Almost all the falloff occurred in single-family dwellings, which are more adversely affected by weather, and in the colder regions of the country. Basic demand for single-family dwellings has not diminished. In addition, investors continue to seek multi-family units for their tax benefits, even if vacancy rates are beginning to increase. Before the end of 1984, those rising vacancy rates should adversely impact rental rates. In turn, this reduced profitability should lead to a slowing of multi-family activity. As mortgage rates are expected to show no significant increases until late in 1984, and should decline early in the spring, no significant slide in housing is anticipated. Housing permits seem to support this. The falloff in December appears to be nothing more than a decline in permit activity until the projects that have been stalled by the weather are further advanced. A further falloff in permits is anticipated in January for that reason, but it would be inappropriate at this time to assume that the permits are predicting significant declines in housing activity.

Most of the decline in residential construction is expected to be caused by two factors. First, unusually dry summer weather created higher levels of construction activity than could be sustained. Thus, a dip to lower sustainable levels should not be surprising. Second, the inclement weather clearly reduced the amount of resources used in construction. The fact that construction employment has not been reduced commensurately, or even at all, suggests that these disruptions are temporary rather than the beginning of a significant housing decline. The weakness in public construction is related to the inability of Congress to devise formulas for allocating highway funds. Thus, the surge in public construction expected to be generated by the five-cent gasoline excise tax has been stalled. Congress is expected to rectify the problem early in 1984, leading to significant growth in public construction latter in the year. Private nonresidential construction is expected to be pulled by two forces. First, declining construction in the utility industry, especially for nuclear facilities, is expected to create a fundamental downtrend in that sector for the remainder of this decade. Second, increasing utilization of available resources will slowly require increased warehouse, workplace, and office space needs.

Business Activity - An unexpected surge in nondefense capital goods shipments during November is largely responsible for the unsustainable surge in producers' durables in the fourth quarter. While these higher levels of nondefense shipments are expected to be maintained, the dip in orders for nondefense goods in November suggests that another rapid surge is unlikely. Indeed, orders and shipments are in reasonable balance for this stage of the business cycle. This is not true of defense shipments, which are trailing sharply behind the buildup of defense orders. More rapid shipments of defense items are expected to materialize as the year progresses.

The greatest surprise in business activity is the weak advance of business inventories. There has been virtually no increase in manufacturers inventory during the last four months, despite relatively sharp increases in manufacturing activity. Inventories were not excessive in the summer, and therefore must be deficient at the present time. Nevertheless, industry is very cautious in building up stock as they are responding to the economic reality of high real rates of interest. This has prolonged the recovery phase of inventory restocking. As a result, inventories will continue to contribute significantly to GNP during the first half of 1984.

Capacity utilization may not have the same impact upon inflation or investment in this cycle as it had in the previous two cycles. The reason for this is the difference in business cycle phases between the remainder of the world and the United States. In previous cycles, most of the world was expanding and contracting with the United States. Now, some foreign capacity can be assumed to be available for domestic use if price pressures begin to develop. Thus, capacity utilization may need to rise above 83% before any significant signs of demand pull inflationary pressures surface. Indeed, demand-oriented inflation may not become a significant problem until utilization rises to the 86% rate.

Prices - Most prices have remained well-behaved through 1983, although prices of some consumer services began accelerating very late in the year. These increases appear to be related to increasing finance costs. Utility costs now are expected to accelerate early in 1984. Prices of consumer nondurables are expected to move especially sharply upward during the winter months. As a result, the GNP deflator should show much more substantial gains in the first quarter of 1984 than in any quarter except the first quarter of 1983. Moreover, the pay raise for government employees will add to the deflator during this quarter. More moderate price changes are anticipated during the spring, before cyclical forces begin to exert upward pressures upon prices in the summer and fall.

Miscellaneous - A sharp drop in inventory valuation during the fourth quarter is related to weakness in prices for petroleum goods. As these price weaknesses no longer are occurring in the winter, inventory valuation is expected to accelerate. This will significantly raise taxable profits, but will have an adverse effect upon operating profits less taxes.

Also, a sharp increase in vendor delays should contribute significantly to the leading indicators in December. Continuing growth in the money supply in excess of inflation will add further to the leading indicators early in 1984. However, a period of reduced growth should then be signalled by these indicators.

The surge in imports during October appears to reflect an increasing share of foreign goods in the Christmas spending spree. Icing problems along the Mississippi may lead to another surge in the trade deficit early in 1984, as exports were hindered but imports reached their port destinations. The dollar is expected to decline later in 1984, leading to some modest improvement in the trade deficit at that time. However, the only good news about the trade deficit at the present time is that it is so bad that it is difficult to conceive that it will get worse.

Financial Markets

The slow growth in money appears to have ended. As M2 and the monetary base did not share in this apparent slowing of M1, it appears more likely that seasonal factors and the October change in regulation of small certificates, which encourages a movement to M2 accounts at the expense of M1, may have been more significant than any Federal Reserve restraint. In December, the commercial paper rate finally overtook the federal funds rate, suggesting that private fund demands rather than Federal Reserve policy was initiating upward pressures upon interest rates. The deterioration in corporate profits created a temporary imbalance between corporate needs and the internal corporate generation of capital. As a result, commercial and industrial loans surged sharply. If this cash flow imbalance is temporary, as expected, then sensitive short-term interest rates once again will trade below the federal funds rate later in the winter and in the spring.

Another change in Federal Reserve techniques may cause the federal funds rate to trade higher than contained in these projections, at least early in

1984. After February 2, banks are required to post reserves on their deposits after only a 2-day delay, rather than the 2-week gap that currently exists. The effect of these contemporaneous reserves will be to reduce the ability to manage reserve needs in a smooth manner. Therefore, federal funds rates could become more volatile. In addition, banks may discover that increased reserves relative to deposits may be desirable until more predictable models can be developed to determine reserve needs. This decline in the deposit-reserve ratio is the equivalent of an increase in monetary restraint by the Federal Reserve. The total effect will be to increase the gap between federal funds and commercial paper rates and may temporarily slow money growth. However, serious seasonal distortions appear to exist in the money supply, especially in the month of February.

The involuntary consumption generated by the cold weather has prevented any interest rate relief from developing in December. Indeed, interest rates may not show any significant easing until the latter part of February, when consumers will be shifting toward rebuilding their depleted savings. Nevertheless, modest declines in interest rates are anticipated at that time. Indeed, the corporate market appears to anticipate significant interest rate easing, as Aaa rates have been leading other interest rates downward in January. Moreover, tax-exempt securities are expected to respond to the improvement in Aaa rates early in 1984, especially as the Congress remains divided in extending the use of tax-exempt securities for mortgage subsidies. the flurry of offerings in December to support mortgage subsidized financing. Until the Congress extends that use of tax-exempt instruments, tax-exempt supply now should remain relatively subdued. Indeed, the Bond Buyer should decline from .79 times the Aaa rate to about .76 times that rate by March.

Of course, the observation that interest rates probably will decline early in 1984 rests upon the assumption that corporations will regain the capacity to internally finance their investment needs early in the year. Also, the household sector temporarily will be increasing savings following the reduced savings that accompanied high utility bills. Nevertheless, this interest rate relief is expected to be temporary and should be reversed before the end of the year.

Equity Markets

Although after-tax profits fell during the fourth quarter, operating profits minus tax liabilities increased 7.5%. This probably explains why equity values were able to hold all of their 1983 gains despite an increase in long-term interest rates. In the first quarter, the quality of earnings will be deteriorating, but profits will continue to expand relative to GNP. Nevertheless, operating profits less tax liabilities probably will increase by less than 3%. Similar rates of increase are expected in the spring before a flattening trend develops late in the year. These more modest rates of gain in earnings will require supportive interest rate movements in order to create increasing equity values. These supportive interest rate movements are developing. Indeed, the stock market appears to have ignored a significant downward move in corporate rates late in January. Therefore, a significant expansion in equity values seems likely by the spring of 1984. However, the magnitude of gain in equity values is not expected to be as significant as anticipated in previous commentaries. As a result, the Dow Jones average may reach 1400 by the spring of 1984, but our formula suggests that it will average only about 1350. Declining equity values are likely in the latter part of the year.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	89735	89748	105.2	105.3	101563	101484	9.5	9.5	155.0	155.0
September	90468	90851	107.2	107.5	101945	101876	9.3	9.2	155.9	155.9
October	90743	91087	107.5	108.1	102198	101970	9.3	8.8	156.5	156.8
November	91105	91413	107.8	108.3	102573	102606	8.8	8.4	157.4	156.8
December	91392	91644	108.0	108.7	102777	102941	8.4	8.2	158.4	157.6
January 1984	91556	91810*	108.2	108.9*	103017	103123*	8.5	8.2*	159.0	158.3*
February	91688	91942	108.4	109.1	103192	103268	8.5	8.2	159.6	159.0
March	91821	92096	108.7	109.4	103355	103445	8.4	8.1	160.1	159.7
April	92037	92283	108.9	109.6	103599	103660	8.4	8.0	160.6	160.4
May	92245	92437	109.1	109.8	103930	103858	8.3	7.9	161.1	161.0
June	92461	92615	109.2	109.9	104078	104114	8.3	7.7	161.7	161.6
July	92573	92783	109.4	110.1	104217	104320	8.2	7.7	162.2	162.2
August	92652	92946	109.5	110.3	104385	104447	8.1	7.7	162.7	162.8
September	92730	93111	109.7	110.6	104514	104657	8.0	7.6	163.3	163.5
October	93007	93264	110.0	110.8	104861	104885	7.9	7.5	164.0	164.2
November	93302	93448	110.3	111.0	105006	105091	7.9	7.4	164.7	165.0

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	2.756	2.756	1.681	1.681	117.3	117.5	2.356	2.356	2.238	2.239
September	2.781	2.782	1.690	1.692	106.5	118.2	2.378	2.378	2.272	2.260
October	2.809	2.813	1.709	1.711	109.6	126.9	2.403	2.405	2.293	2.278
November	2.833	2.833	1.720	1.715	122.3	126.4	2.423	2.423	2.301	2.296
December	2.867	2.857	1.740	1.725	132.9	117.5	2.448	2.443	2.315	2.326
January 1984	2.881	2.873*	1.748	1.736*	126.1	108.3*	2.461	2.457*	2.335	2.349*
February	2.901	2.892	1.756	1.747	128.2	114.2	2.481	2.474	2.353	2.360
March	2.920	2.912	1.765	1.759	130.3	118.4	2.502	2.493	2.372	2.375
April	2.941	2.930	1.778	1.770	128.8	115.8	2.517	2.508	2.388	2.392
May	2.963	2.952	1.790	1.780	129.2	119.5	2.532	2.526	2.403	2.407
June	2.985	2.969	1.803	1.788	129.3	114.3	2.548	2.538	2.419	2.424
July	3.002	2.993	1.814	1.798	122.8	111.1	2.562	2.558	2.439	2.447
August	3.018	3.010	1.823	1.808	118.3	105.3	2.575	2.570	2.457	2.465
September	3.034	3.031	1.833	1.821	112.0	103.3	2.587	2.586	2.474	2.482
October	3.065	3.055	1.850	1.836	116.3	104.2	2.613	2.605	2.497	2.501
November	3.090	3.074	1.865	1.848	121.7	100.3	2.633	2.619	2.511	2.519

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	2174.2	2173.8	277.7	278.2	816.8	813.1	1079.7	1082.5	1012.9	1012.4
September	2207.5	2194.7	287.8	283.2	825.5	817.4	1094.1	1094.2	1025.5	1017.5
October	2228.7	2211.8	296.5	288.2	830.7	825.7	1101.5	1097.8	1032.2	1024.3
November	2234.1	2229.4	298.1	291.8	833.1	828.1	1102.9	1109.5	1033.1	1031.4
December	2251.5	2258.0	299.4	305.6	843.6	823.8	1108.5	1128.6	1034.4	1040.9
January 1984	2270.5	2280.2*	306.3	307.3*	847.5	834.8*	1116.7	1138.1*	1040.2	1045.7*
February	2287.6	2290.7	308.9	309.4	851.5	840.7	1127.2	1140.6	1045.0	1046.0
March	2305.4	2304.9	311.5	312.1	855.8	845.3	1138.1	1147.5	1049.7	1047.7
April	2319.4	2321.8	313.2	314.2	861.0	850.8	1145.2	1156.8	1053.2	1051.2
May	2336.2	2335.5	316.4	314.9	868.1	857.2	1151.7	1163.4	1055.0	1053.3
June	2352.3	2352.1	319.2	317.3	875.8	864.7	1157.3	1170.1	1056.9	1056.8
July	2371.0	2374.6	323.3	321.7	880.8	872.9	1166.9	1180.0	1059.9	1062.9
August	2388.6	2391.8	325.4	322.2	886.7	881.0	1176.5	1188.6	1064.5	1066.6
September	2406.2	2409.3	327.5	324.0	892.5	887.6	1186.2	1197.7	1069.2	1070.3
October	2424.2	2426.8	330.5	326.7	898.3	894.7	1195.4	1205.4	1071.3	1074.1
November	2441.1	2444.1	333.2	327.7	905.4	902.1	1202.5	1214.3	1074.1	1077.6

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	97.76	97.80	13.37	13.33	8.9	8.9	67.16	66.91	17.43	17.56
September	99.43	99.20	13.47	13.47	9.1	9.2	67.80	67.08	18.21	18.65
October	100.87	100.84	13.53	13.72	9.6	9.8	68.23	67.75	19.11	19.37
November	101.34	101.98	13.50	13.82	9.8	9.5	68.43	67.87	19.41	20.29
December	102.44	102.06	13.44	13.79	10.0	10.5	69.29	67.41	19.71	20.87
January 1984	103.42	103.00*	13.61	13.86*	10.3	10.5*	69.61	68.15*	20.20	20.99
February	104.10	103.72	13.85	14.03	10.2	10.5	69.94	68.63	20.15	21.06
March	104.73	104.49	13.98	14.16	10.3	10.6	70.29	69.09	20.31	21.24
April	105.25	105.26	14.01	14.22	10.4	10.6	70.72	69.62	20.46	21.42
May	106.23	105.85	14.20	14.31	10.4	10.5	71.30	70.14	20.52	21.40
June	107.06	106.75	14.40	14.46	10.5	10.6	71.93	70.76	20.73	21.53
July	107.93	107.92	14.56	14.55	10.6	10.8	72.35	71.43	21.02	21.94
August	108.65	108.63	14.72	14.68	10.6	10.7	72.83	72.09	21.10	21.86
September	109.35	109.38	14.81	14.82	10.7	10.7	73.31	72.63	21.23	21.93
October	110.16	110.26	14.88	14.90	10.7	10.8	73.78	73.21	21.50	22.15
November	111.04	110.99	14.96	14.98	10.8	10.8	74.37	73.82	21.71	22.19

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	259.9	259.8	89.98	89.98	23.03	23.03	22.57	22.57
September	262.6	260.0	89.50	91.00	24.01	25.21	23.35	23.70
October	265.1	260.8	93.65	93.37	24.36	26.00	23.49	23.08
November	267.6	260.7	94.07	96.70	24.69	24.72	23.57	24.41
December	269.4	261.7*	94.88	95.46*	25.13	25.29*	23.80	24.65*
January 1984	271.8	263.0	95.36	96.62	25.42	25.56	24.03	24.73
February	275.6	264.8	94.49	98.15	25.40	25.92	24.22	24.91
March	277.5	267.0	95.87	99.93	25.68	26.31	24.43	25.21
April	280.3	269.3	96.91	100.37	26.03	26.69	24.68	25.42
May	282.5	271.5	97.15	102.85	26.17	27.43	24.91	25.59
June	285.9	273.8	98.24	100.99	26.29	27.25	25.23	25.68
July	288.7	275.7	98.82	101.86	26.25	27.36	25.49	25.82
August	291.3	277.6	100.07	104.07	26.43	27.81	25.63	26.03
September	294.4	279.5	102.93	105.39	27.01	28.15	25.80	26.22
October	298.2	281.2	103.46	105.96	27.06	28.20	26.03	26.42
November	300.9	283.5	103.61	105.75	27.11	28.06	26.31	26.51

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	512.1	510.4	5.44	5.44	151.4	151.8	77.1	77.3
September	516.3	513.9	5.28	5.43	153.7	153.8	78.1	78.2
October	520.4	516.0	5.47	5.59	154.9	155.0	78.6	78.7
November	524.7	518.0	5.83	5.55	156.0	156.1	79.0	79.1
December	529.1	521.4*	6.06	5.83*	157.1	156.9	79.4	79.4
January 1984	535.6	525.1	6.18	6.05	158.5	158.0*	79.9	79.8*
February	540.3	528.7	6.21	6.16	159.3	158.5	80.1	79.9
March	544.1	532.4	6.24	6.27	160.1	159.2	80.3	80.3
April	550.7	536.5	6.38	6.25	160.9	159.7	80.6	80.4
May	555.6	540.9	6.52	6.43	161.7	160.4	80.8	80.6
June	560.0	545.5	6.81	6.59	162.5	160.8	81.0	80.6
July	566.1	549.5	6.86	6.72	162.2	161.5	80.7	80.7
August	570.5	553.9	6.95	6.90	162.0	161.9	80.5	80.7
September	576.6	557.4	7.04	7.03	162.8	162.5	80.7	80.9
October	582.0	561.4	7.18	7.14	164.0	163.1	81.1	81.1
November	589.1	566.0	7.35	7.29	165.0	163.8	81.4	81.3

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	1.909	1.904	1.141	1.135	1.652	1.652	276.1	282.0	178.8	178.1
September	1.652	1.664	1.009	1.031	1.504	1.506	276.4	285.4	178.7	179.6
October	1.584	1.654	0.993	1.002	1.449	1.630	277.6	271.9	179.1	171.2
November	1.542	1.755	0.972	1.097	1.386	1.642	277.8	271.9	178.9	172.3
December	1.491	1.667	0.946	0.972	1.297	1.605	276.6	268.3*	177.8	169.9*
January 1984	1.498	1.737*	0.981	1.026*	1.273	1.549*	276.2	270.4	177.1	170.7
February	1.472	1.828	0.932	1.082	1.255	1.623	274.8	277.0	175.6	174.2
March	1.512	1.809	0.900	1.083	1.276	1.638	276.0	281.6	175.9	177.1
April	1.527	1.832	0.942	1.121	1.275	1.652	278.6	286.8	177.1	179.9
May	1.535	1.780	0.971	1.086	1.296	1.627	280.2	291.0	177.6	182.0
June	1.538	1.764	0.997	1.095	1.321	1.584	282.1	293.3	178.1	182.9
July	1.572	1.784	1.005	1.111	1.342	1.597	284.7	295.1	179.2	183.4
August	1.624	1.745	1.026	1.063	1.411	1.564	289.2	296.6	181.3	182.7
September	1.655	1.702	1.043	1.051	1.446	1.508	292.9	298.5	182.9	183.1
October	1.627	1.677	1.040	1.055	1.427	1.482	294.7	298.7	183.3	182.4
November	1.586	1.669	1.048	1.042	1.411	1.473	296.5	298.9	183.7	181.7

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	103.3	101.4	52.6	53.5	120.2	127.1
September	100.8	103.4	54.0	52.8	121.6	129.1
October	101.3	101.3	53.5	48.9	122.8	121.7
November	100.6	105.0	53.7	48.6	123.5	118.3
December	100.7	104.2*	54.0	48.0*	121.9	116.1*
January 1984	101.1	105.0	55.3	48.5	119.8	116.9
February	102.2	106.9	55.0	50.3	117.6	119.8
March	103.4	107.5	57.0	50.7	115.6	123.4
April	103.8	108.1	57.5	51.5	117.3	127.2
May	103.6	108.9	58.0	52.3	118.6	129.8
June	103.8	109.5	58.4	53.0	119.9	130.8
July	104.5	110.4	59.0	53.6	121.2	131.1
August	105.8	110.9	59.5	54.3	123.9	131.4
September	107.0	112.5	60.1	54.9	125.8	131.1
October	107.6	113.1	60.8	55.4	126.3	130.2
November	108.1	114.8	61.4	56.0	127.0	128.1

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	300.0	300.0	286.4	286.4	317.5	317.5	2.1638	2.1644
September	301.4	301.4	286.9	286.9	317.2	317.2	2.1704	2.1710
October	302.5	302.7	287.8	287.8	319.5	318.7	2.1813	2.1791
November	303.5	303.6	289.1	287.3	320.6	318.3	2.1892	2.1843
December	304.4	304.4*	290.0	287.8	321.8	318.4	2.1978	2.1924
January 1984	305.6	305.6	291.1	288.2*	322.6	318.1*	2.2071	2.2077
February	306.6	306.6	292.0	289.5	323.7	319.5	2.2162	2.2156
March	307.7	307.5	293.5	290.5	324.9	320.8	2.2254	2.2234
April	309.0	308.7	294.7	291.3	326.1	321.6	2.2337	2.2309
May	310.0	310.0	295.6	292.5	327.1	322.5	2.2419	2.2386
June	311.1	311.0	296.7	293.4	328.2	323.6	2.2502	2.2467
July	312.6	312.2	298.2	294.2	329.4	324.3	2.2600	2.2553
August	314.3	313.2	300.0	295.0	331.0	325.5	2.2695	2.2656
September	316.6	314.5	302.5	296.0	332.6	326.7	2.2791	2.2745
October	317.9	315.8	303.9	297.1	334.7	328.5	2.2929	2.2867
November	318.9	317.5	305.1	298.1	335.3	329.2	2.3020	2.2963

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	214.7	214.7	178.9	178.9	215.8	215.7	225.3	225.6	154.4	158.4
September	215.3	215.7	180.1	179.9	216.8	216.0	225.8	227.2	154.7	158.9
October	215.9	215.9	180.5	180.2	217.2	215.9	226.9	227.8	155.0	158.8
November	216.3	216.2	181.3	180.1	217.5	215.3	227.9	229.0	155.3	157.8
December	217.7	216.9*	182.1	181.0*	217.9	215.2*	229.0	230.7*	155.6	157.9*
January 1984	218.3	218.1	182.8	181.4	218.7	216.2	229.8	232.2	156.0	158.4
February	218.9	219.0	183.2	182.0	219.6	217.4	230.7	233.1	156.5	159.0
March	219.6	220.0	183.6	182.6	220.5	218.4	231.6	234.3	156.9	159.4
April	220.2	220.9	184.3	183.3	221.3	219.2	232.6	235.3	157.3	159.9
May	221.4	221.7	184.8	184.0	222.2	220.0	233.7	236.2	157.8	160.4
June	222.6	222.6	185.4	184.6	223.1	220.9	234.5	237.1	158.4	160.9
July	223.7	223.4	186.0	185.1	224.5	221.8	235.4	238.1	158.9	161.5
August	224.4	224.2	186.5	185.7	225.6	222.6	236.6	239.0	159.5	162.3
September	225.0	225.1	187.1	186.3	226.8	223.4	237.8	240.0	160.1	163.0
October	226.3	225.9	188.0	186.7	227.7	224.4	238.7	240.9	160.8	163.8
November	227.3	226.8	188.4	187.3	228.8	225.3	239.8	241.8	161.4	164.5

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	-7190	-7187	158.1	159.0	3359	3358	1552	1551	15.5	18.6
September	-5807	-5807	159.8	160.2	3403	3400	1568	1566	19.5	19.5
October	-7205	-8966	160.4	162.4	3438	3412	1576	1566	17.3	10.3
November	-5076	-7401	160.8	161.8	3462	3433	1581	1572	17.9	9.1
December	-5918	-6892	161.8	162.8*	3487	3451	1587	1574	17.6	7.9
January 1984	-6128	-7862	161.9	163.5	3520	3492	1595	1582	19.1	9.8
February	-6491	-7942	161.5	163.3	3556	3523	1604	1590	20.2	14.3
March	-6853	-7793	162.0	163.6	3594	3553	1615	1598	21.3	16.2
April	-6546	-7522	162.4	164.3	3620	3581	1621	1605	20.8	15.1
May	-6827	-7818	162.9	165.0	3639	3608	1623	1612	21.0	15.6
June	-6652	-7562	163.3	165.4	3659	3634	1626	1617	19.4	14.9
July	-6943	-7463	163.9	165.9	3685	3666	1630	1625	21.5	14.7
August	-7311	-7511	164.8	166.3	3712	3693	1636	1630	22.0	15.9
September	-7649	-7443	165.8	166.9	3741	3720	1641	1636	22.6	16.6
October	-7742	-7382	166.5	167.2	3779	3748	1648	1637	22.3	16.3
November	-7625	-7296	167.0	167.5	3814	3772	1657	1643	22.4	15.5

Fore. = November Forecast
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* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	195.8	195.2	516.7	516.7	2136.9	2136.9	9.56	9.56	9.51	9.51
September	197.0	196.8	517.2	517.1	2145.3	2145.4	9.45	9.45	9.15	9.15
October	197.9	198.1	518.6	517.9	2159.7	2161.6	9.57	9.48	8.88	8.83
November	199.0	199.4	522.3	518.3	2179.6	2174.6	9.17	9.34	8.70	8.93
December	200.2	200.0	526.0	521.1	2198.4	2184.7	9.06	9.47	8.61	9.17
January 1984	201.5	201.5*	528.3	524.4*	2214.3	2198.3*	8.89	9.62*	8.42	9.06*
February	202.6	202.4	530.6	528.9	2232.3	2215.9	8.72	9.35	8.16	8.74
March	203.9	203.5	533.0	532.2	2250.0	2231.4	8.76	8.97	8.23	8.66
April	205.1	204.6	537.2	535.6	2271.6	2244.3	8.85	8.83	8.30	8.61
May	206.4	205.8	541.4	538.2	2292.9	2264.5	8.93	8.91	8.51	8.68
June	207.7	206.9	545.6	539.8	2314.1	2280.4	9.01	8.72	8.42	8.62
July	208.9	208.0	548.9	542.9	2332.9	2298.6	9.10	8.68	8.40	8.69
August	210.0	209.0	551.1	546.1	2350.6	2319.3	9.12	8.73	8.43	8.75
September	211.1	210.1	553.3	549.0	2369.4	2337.9	9.15	8.89	8.42	8.92
October	212.4	211.3	557.1	552.6	2387.2	2358.9	9.29	9.06	8.49	9.12
November	213.6	212.1	559.9	554.6	2406.5	2375.4	9.39	9.52	8.53	9.29

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
August 1983	12.51	12.51	9.72	9.72	9.54	9.54	9.77	9.77	10.89	10.89
September	12.37	12.37	9.58	9.58	9.24	9.24	9.39	9.39	11.00	11.00
October	12.24	12.25	9.65	9.66	9.09	8.99	9.21	9.18	11.00	11.00
November	12.10	12.41	9.54	9.75	8.96	9.10	9.15	9.36	11.00	11.00
December	12.05	12.57	9.52	9.93	8.92	9.53	9.11	9.69	11.00	11.00
January 1984	11.79	12.42*	9.02	9.58*	8.83	9.26*	9.04	9.47*	11.00	11.00*
February	11.62	12.16	8.84	9.30	8.70	9.04	8.87	9.25	10.50	11.00
March	11.64	11.93	8.91	9.09	8.79	8.71	8.96	8.90	10.50	10.66
April	11.70	11.86	9.00	9.01	8.95	8.75	9.12	8.93	10.50	10.50
May	11.81	11.95	9.09	9.14	9.03	8.94	9.21	9.13	10.50	10.50
June	11.78	11.88	9.09	9.10	9.12	8.83	9.33	9.06	10.50	10.50
July	11.63	11.79	8.93	9.00	9.25	8.80	9.47	9.02	10.50	10.50
August	11.48	11.84	8.87	9.09	9.23	8.85	9.51	9.07	10.50	10.50
September	11.43	11.95	8.86	9.19	9.28	8.99	9.58	9.19	10.50	10.50
October	11.59	11.98	8.98	9.26	9.34	9.24	9.65	9.43	10.50	10.50
November	11.60	12.16	9.03	9.45	9.42	9.43	9.67	9.65	10.50	10.87

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2/23/84 U1880 - 3 A

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MONTHLY PROJECTIONS FOR OCTOBER

Issued February 10, 1984

ECONOMY REMAINS STRONG BUT UNCERTAINTY GROWS

January's employment situation should lay to rest any significant concerns that the economy is about to propel itself into a recession. The current monthly projections generally include the monthly evaluation of our February forecast in the current expectations column. However, the hours worked expanded so sharply in January that they cannot fit comfortably into the forecasted values. Indeed, an upward revision in our already robust 5.2% increase for the first quarter may be required.

Apparently, adverse weather was more responsible for changing production and spending patterns in December than any underlying changes in economic behavior. Although the weather did not improve in January, seasonal factors in that month expect weather patterns consistent with those that occurred. Therefore, the seasonally adjusted data are expected to show significant economic vigor. In the first place, retail sales should be enhanced by the restocking of pantries following an unexpected 1.5% decline in grocery sales during December. The general merchandise category in December probably was significantly understated in the advance retail reports and should be revised upward. At the same time, automobile sales have surged to more than 11 million units. Further advances in automobile sales are unlikely from these lofty levels. To that extent, most of the expansion in consumer durables probably already has occurred. As consumer durables constitute the most volatile segment of consumer activity, the consumer will not be leading economic expansion in 1984.

Indeed, the current stock market decline is reducing the ratio of assets to consumption in the household sector to the vicinity of 3. Our analysis suggests that ratios above 3 that are also rising tend to cause savings rates to decline. Ratios below 3 that are falling cause savings rates to rise. While the decline in the ratio certainly would suggest an increase in savings during 1984, there still remains residual gains from the previous year that have not yet been converted into increased consumption. Therefore, the recent decline in equity values merely cancels out the lagged stimulus from previous stock market advances. Further equity value declines, however, will begin to generate increased savings. At that point, economic expansion could begin to falter.

While the expansion of employment and especially of the index of hours worked in January strongly suggest that industrial production and personal income in January will generate significant gains, it is possible that the economic expansion already has shifted from rewarding equity owners to rewarding wage earners. As the hourly earning index remains well subdued, at 3.6% above previous year levels and growing at a 3.6% annual rate in the latest three months, the increased share of activity going to workers may be in the form of increased hours and jobs. In other words, productivity gains during 1983 may not have been as fundamental as many observers have argued. After all, the 3.1% expansion in the private nonfarm economy during that year is one of the lowest productivity gains during the first four quarters of economic expansion. If hours worked now are growing no slower than economic activity, as the January employment situation strongly implies, then the benefits to inflation from increased productivity gains may already be nearing an end. Actually, such a conclusion would be puzzling, as the high real rates of interest require the use of very productive capital resources. Although the reduced growth in the quantity of those resources precludes any dramatic acceleration in productivity, the improved quality necessitated by these high real rates of interest clearly argues in favor of some continued productivity advances. Therefore, the surge in January may be somewhat illusory, as it merely reflects regaining the growth path that had temporarily been diminished by adverse weather in December. Activity in subsequent months, therefore, should be advancing much more slowly.

Unfortunately, the President's budget and the Open Market Committee meeting minutes of December 1983 raise serious questions about the direction of monetary and fiscal policy. According to those Open Market minutes, "concern was expressed that, as the foreign exchange value of the dollar rose to a relatively high level, the dollar would be exposed increasingly to a precipitate drop." In effect, accumulating snow on the mountaintops was increasing the risk of a serious inflationary avalanche. The solution should have been a pre-emptive minor avalanche to forestall the development of serious foreign exchange disequilibrium. However, the same Open Market Committee that expressed these concerns advocated the possibility of intensifying Federal Reserve restraint even as the dollar continued to advance toward new highs. Advocating the absolutely incorrect prescription to a correctly diagnosed problem raises grave concerns about the competence of the Federal Reserve during this period of foreign exchange speculation. Now that the dollar is falling, the Federal Reserve simply has no capacity to tighten policy in order to moderate the dollar's decline without inflicting serious damage upon the domestic economy. Was the Federal Reserve truly so short-sighted in December that it could not understand the consequences of its actions?

Not only is the President's 1985 budget distressing because of the $180 billion deficit and the increased interest expenses that such a mountain of red ink implies, but there is little likelihood that the deficit will be held down even to that significant rate. Virtually no competent forecaster believes that interest rates can continue to decline in the third year of an economic recovery while the budget excluding the change in interest expense is actually increasing. Yet, the administration presents such a budget and then diminishes the interest expense component by arbitrarily declaring that interest rates, indeed, will be declining. When other revenue-raising proposals of the administration also are rejected, such as tax payments on the employer contribution for health insurance, the deficit should more appropriately be nearly $200 billion. Of greater significance is the necessity of the administration to acknowledge that rapid economic growth, in the absence of an inflationary flare-up, cannot significantly reduce budget deficits. While the Treasury Department may criticize Dr. Feldstein's analysis of the structural deficit, they have yet to provide any public studies that legitimately can refute it.

The President's inaction in the face of accelerating deficits during a period of maturing economic activity clearly suggests that credit market imbalances will be developing in 1985 that may lead to the end of economic expansion before that year is out.

Quarterly Profile of GNP

	1984-I	1984-II	1984-III	1984-IV	1985-I
Real	5.2	4.8	3.8	3.9	2.5
Price	6.0	4.2	4.6	5.7	5.3
Nominal	11.5	9.3	8.5	9.8	7.9

Monthly Statistical Highlights
for January 1984

Personal income, +1.1%; Savings rate, 5.2%; Personal consumption, +1.0%; Retail sales, +1.7%; Housing starts, +4.2%; Housing permits, +3.6%; Construction expenditures, +1.5%; Business inventories, +0.6%; Orders for durable goods, -0.9%; Orders for nondefense capital goods, +2.0%; Industrial production, +1.3%; CPI, +0.7%; Consumption deflator, +0.6%; Leading indicators, +0.4%; M1, +8.9%; M2, +6.0%.

Monthly Statistical Highlights
for February 1984

Payroll employment, +137,000; Index of hours worked, +0.1%; Household employment, +236,000; Civilian unemployment rate, 8.0%; Personal income, +0.6%; Savings rate, 5.5%; Personal consumption, +0.4%; Retail sales, +0.4%; Auto sales, 11.0 million; Housing starts, +5.7%; Housing permits, -2.2%; Construction expenditures, -0.1%; Business inventories, +0.7%; Orders for durable goods, +0.3%; Orders for nondefense capital goods, -0.9%; Industrial production, +0.4%; CPI, +0.5%; PPI, +0.6%; Consumption deflator, +0.6%; Leading indicators, +0.2%; M1, 6.1%; M2, 8.2%.

Commentary

Employment - Of the 285,000 expansion in payroll employment during January, 100,000 was in construction and another 100,000 was in manufacturing, especially machinery and transportation equipment. Employment gains in machinery and transportation equipment should continue to remain robust for several more months, although shipments currently are exceeding orders in the nondefense capital goods sector. The surge in construction appears to be the result of weather problems and no further surge should be expected. Therefore, payroll employment will grow much more slowly in the next few months. However, the surge in the index of hours worked already places that index 6.4% above fourth quarter levels. Not only does this suggest that productivity gains will be relatively small early in 1984, it also indicates that the private economy has rebounded. Industrial production should be expanding at least 1.3% to be consistent with the strong gain in hours worked. Moreover, the extension of the manufacturing workweek suggests that employment gains will remain robust for a few more months.

The good news in the employment situation is the continuing moderation in the hourly earnings index. No significant acceleration has yet been detected. Thus, wage costs should show no dramatic acceleration from 1983 averages during 1984, except for the impact that higher Social Security taxes paid by employers has upon wage costs.

Personal Income and Outlays - According to the President's budget, PIK distributions will reach their maximum levels in the early months of 1984. This would suggest that farm incomes can continue to rise in January and February. Declines then would be necessary in subsequent months in the absence of favorable earnings from cash crops. When these PIK transfers are combined with the wage increases for federal employees, 3.5% for civilians and 4.0% for the military, and with the cost of living adjustment for Social Security recipients, personal income in January could jump by a relatively vigorous amount.

However, outlays also appear to be increasing strongly. Although purchases of services will show a more normal rate of increase following the weather-induced surge in December, sharp increases in automobile sales and a shift toward grocery consumption in January suggest that overall outlays could exceed 1%. Nevertheless, consumer savings should rise. Further increases in consumer savings are now anticipated for February, as consumers begin to moderate their purchases of durables to replenish liquidity following involuntary consumption of utilities and the increased uncertainty resulting from dramatic stock market declines. Thus, the consumer will begin increasing its pool of savings during the early months of 1984.

Retail Sales - The largest changes anticipated in retail sales are in the automobile component, where sales accelerated to 11.2 million units in January, and the grocery store component, where December declines must have been the result of delayed purchases. Indeed, retail sales could show a surge approaching 2% in January.

Construction - The employment situation clearly suggests that construction will rebound strongly in January. Moreover, a surge in sales of single-family dwellings, dropping that inventory to only a 4.5 month supply, should encourage builders to intensify their efforts early in 1984. Whereas the housing market detracted from GNP in the fourth quarter, it will be adding to economic growth in the first half of 1984. Declines then may begin to materialize in subsequent periods.

The surge in single-family sales during December to 808,000 is difficult to explain. Of course, aggressive marketing of variable rate mortgages helped sales activity in several states. Many buyers felt they were receiving a temporary financing benefit. It is possible that the current sales surge reflects the belief of potential home buyers that mortgage rates are about to rise. It is also possible that termination of mortgage subsidy programs at the end of the year enticed some buyers to step up their purchasing plans. Certainly, sales should not remain as robust in the winter. Nevertheless, the significant reduction in the inventory of available homes will encourage construction early in 1984.

Business Activity - Orders for durable goods were revised upward when factory orders were released for December. As defense and primary metals showed significant order declines, the performance in the durable goods industries must be considered exceptionally strong. Orders rebounded for nondefense capital goods, but shipments currently are exceeding those orders. It is unlikely that shipments can remain as robust in the early months of 1984 as in December. Indeed, a mere maintenance of those shipment rates would lead to a further dramatic acceleration in spending on producers' durables during the winter quarter.

Manufacturers' inventories again showed no increase. The dramatic growth in manufacturing shipments with no change in inventories remains a significant puzzle. Obviously, the processing of inventories has been shifting from the manufacturing sector to the wholesale and retail areas. As a result, manufacturers probably will now maintain lower inventories relative to shipments than historically. Nevertheless, inventories should begin to grow toward the rate of growth of shipments at some time in 1984. This suggests that further increases in industrial production still are warranted for the purpose of restocking warehouses.

Prices - A temporary surge in prices is likely in the first months of 1984 as a result of surging fuel oil prices and some temporary increases in prices for fruits, vegetables, and meat products. The food components, except meat, should reverse price direction late in the winter and in early spring. Moreover, most of the increase in fuel oil prices will be reversed as warmer weather approaches. Thus, prices will surge in the first quarter and then subside in the spring.

Miscellaneous - Although the dollar apparently has begun its correction from an overvalued position, trade deficits are expected to deteriorate significantly following a temporary reprieve in December. Because of response to earlier favorable weather conditions, oil imports were declining in that month. Also, a temporary surge in sales of transportation equipment led to a rare gain in exports. Both positions will be reversed early in 1984, leading to record trade deficits in the first quarter.

Financial Markets

Money no longer is growing at a snail's pace, but a dramatic decline in the ratio of deposits to reserves suggests that a modest increase in Federal Reserve accommodation is being partially thwarted by diminished demand for money. Apparently, heightened currency speculation in December led to increased demand for transactions balances to service the growing investment positions of foreign investors. Now that those investors are rapidly reversing their dollar holdings, these transactions deposits can be reduced. Certainly, the reduced demand for money is not the result of diminished economic activity in the United States.

Initially, the shift in foreign investors' sentiments will lead to more moderate growth in M1, permitting the Federal Reserve to reduce federal funds targets if it so desires. However, the longer term implications of the change in foreign investors' sentiment is an increase in domestic interest rates. Ultimately, those investors must either be coaxed back with the aid of increased earnings potential or higher domestic interest rates must be necessary to reduce investment desires and increase desired savings in the domestic economy. Therefore, any moderation in interest rates stemming from a near-term slowing in the demand for money, that will be reflected in reduced growth in monetary aggregates, is no significant cause for interest rate comfort.

As mentioned above, the rapid increase in the index of hours worked may mean that the business cycle is now moving toward rewarding wage earners through increased use of their resources at the expense of equity holders. The result of this shift in income distribution is a reduction in corporate profitability, and an increase in corporate borrowing needs. Thus, the corporate sector may already be shifting toward a net user of the available credit pool. Fortunately, government receipts currently are expanding more rapidly than government outlays at the present time. Thus, total government deficits are declining slightly. However, significant gains in operating surpluses registered by state and local governments suggest that much of this improved budgetary condition is temporary. By the end of 1984, the combined impact of federal and state and local budgets will be to increase claims against the available savings pool. This leaves the household sector as the only significant force acting toward reduced interest rates at the present time. A period of increased savings should develop once the involuntary consumption of utilities has ended. Therefore, interest rates can decline into the spring. After that time, however, the increased use of funds by the corporate and government sectors will offset any further increase in that savings pool stimulated by household behavior. Thus, interest rates will be rising significantly at the end of 1984 and should be moving toward recession-inducing levels in 1985.

Equity Markets

Our stock market formulas clearly missed the significant market correction that began developing in January. Of course, the degree of gain in corporate profitability may be overstated, especially as the surge in hours worked strongly suggests that productivity gains no longer are significant. This means that incomes are being redistributed away from corporate profitability and toward wage compensation. Such a redistribution of income clearly is adverse to the benefits of equity holders. Nevertheless, growth is sufficiently vigorous in the economy to insure that some absolute gains are continuing to be registered in the book value of equity ownership. Therefore, the significant market break must be explained largely by changes in investors' sentiment.

While our formulas use returns from alternative investments, as reflected in yields on long-term securities, the yields that have been used are those of Aaa corporate bonds. In fact, the corporate bond market rallied in January. This would suggest that stock prices should rise. However, market concerns about the supply of government issues prevented the Treasury market from similarly improving. Thus, the corporate Aaa's currently may not be a good proxy for alternative investment opportunities facing investors in the stock market. Using long-term Treasury bonds would have led to a 7% lower valuation of equities.

However, the greatest omission in the equity analysis is the failure to consider the needs of foreign investors. What differentiates the foreign holders of American equities from domestic holders is their concern about currency translations. If the dollar becomes overvalued, foreign investors would require significant concessions in order to purchase American investment instruments. Using some of our mathematical analysis, both the currency markets and the equity markets appear to have developed a "catastrophe point". This means that price concessions in excess of 10% are necessary before fundamental equilibrium conditions can be re-established in either market. Using that methodology, we would expect the stock market to fall to the vicinity of 1100 on the Dow Jones before foreign investors no longer are apprehensive about holding overvalued dollar assets. This is a significant revision from our previous analysis, but it appears to be dictated by shifts in investors' sentiment concerning the dollar's value.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	90743	91084	107.5	108.1	102198	101970	9.3	8.8	156.5	156.8
November	91105	91355	107.8	108.3	102573	102606	8.8	8.4	157.4	156.9
December	91392	91583	108.0	108.8	102777	102941	8.4	8.2	158.4	157.5
January 1984	91556	91870	108.2	110.2	103017	103190	8.5	8.0	159.0	158.2
February	91688	92107*	108.4	110.3*	103192	103426*	8.5	8.0*	159.6	159.2*
March	91821	92368	108.7	110.5	103355	103654	8.4	7.9	160.1	160.1
April	92037	92607	108.9	110.7	103599	103947	8.4	7.8	160.6	160.6
May	92245	92812	109.1	110.9	103930	104253	8.3	7.7	161.1	161.0
June	92461	93018	109.2	111.2	104078	104561	8.3	7.6	161.7	161.5
July	92573	93207	109.4	111.5	104217	104772	8.2	7.6	162.2	162.2
August	92652	93405	109.5	111.7	104385	104998	8.1	7.6	162.7	163.0
September	92730	93611	109.7	111.9	104514	105217	8.0	7.5	163.3	163.7
October	93007	93782	110.0	112.1	104861	105448	7.9	7.4	164.0	164.5
November	93302	93960	110.3	112.4	105006	105631	7.9	7.3	164.7	165.2
December	93596	94138	110.6	112.7	105318	105854	7.8	7.3	165.5	165.9

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	2.809	2.813	1.709	1.711	109.6	126.9	2.403	2.405	2.293	2.278
November	2.833	2.833	1.720	1.715	122.3	126.4	2.423	2.423	2.301	2.296
December	2.867	2.857	1.740	1.725	132.9	117.5	2.448	2.443	2.315	2.326
January 1984	2.881	2.883*	1.748	1.742*	126.1	124.1*	2.461	2.469*	2.335	2.345*
February	2.901	2.899	1.756	1.752	128.2	128.3	2.481	2.482	2.353	2.354
March	2.920	2.916	1.765	1.763	130.3	131.6	2.502	2.496	2.372	2.364
April	2.941	2.934	1.778	1.775	128.8	131.1	2.517	2.512	2.388	2.381
May	2.963	2.954	1.790	1.785	129.2	130.7	2.532	2.529	2.403	2.398
June	2.985	2.973	1.803	1.796	129.3	128.8	2.548	2.545	2.419	2.416
July	3.002	2.994	1.814	1.807	122.8	129.3	2.562	2.561	2.439	2.432
August	3.018	3.012	1.823	1.819	118.3	127.0	2.575	2.574	2.457	2.447
September	3.034	3.033	1.833	1.833	112.0	126.8	2.587	2.590	2.474	2.463
October	3.065	3.059	1.850	1.847	116.3	130.7	2.613	2.612	2.497	2.481
November	3.090	3.078	1.865	1.860	121.7	130.0	2.633	2.627	2.511	2.497
December	3.114	3.097	1.881	1.872	122.8	132.8	2.652	2.642	2.529	2.509

Fore. = November Forecast
C.E. = Current Expectations
= This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	2228.7	2211.8	296.5	288.2	830.7	825.7	1101.5	1097.8	1032.2	1024.3
November	2234.1	2229.4	298.1	291.8	833.1	828.1	1102.9	1109.5	1033.1	1031.4
December	2251.5	2258.0	299.4	305.6	843.6	823.8	1108.5	1128.6	1034.4	1040.9
January 1984	2270.5	2276.3*	306.3	306.8*	847.5	834.6*	1116.7	1134.9*	1040.2	1044.7*
February	2287.6	2284.5	308.9	306.0	851.5	840.3	1127.2	1138.2	1045.0	1041.7
March	2305.4	2294.7	311.5	306.5	855.8	846.0	1138.1	1142.2	1049.7	1041.2
April	2319.4	2310.6	313.2	309.4	861.0	850.2	1145.2	1151.0	1053.2	1047.4
May	2336.2	2327.3	316.4	313.5	868.1	852.3	1151.7	1161.5	1055.0	1051.6
June	2352.3	2344.6	319.2	317.6	875.8	854.7	1157.3	1172.3	1056.9	1055.7
July	2371.0	2359.2	323.3	319.5	880.8	860.3	1166.9	1179.4	1059.9	1058.4
August	2388.6	2373.8	325.4	321.4	886.7	867.1	1176.5	1185.3	1064.5	1060.7
September	2406.2	2389.4	327.5	323.4	892.5	873.9	1186.2	1192.1	1069.2	1063.4
October	2424.2	2406.8	330.5	325.2	898.3	878.2	1195.4	1203.4	1071.3	1066.8
November	2441.1	2421.8	333.2	327.3	905.4	881.4	1202.5	1213.1	1074.1	1069.2
December	2458.7	2433.4	335.8	326.7	913.1	884.0	1209.8	1222.7	1076.5	1070.1

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	100.87	100.84	13.53	13.72	9.6	9.8	68.23	67.75	19.11	19.37
November	101.34	101.98	13.50	13.82	9.8	9.5	68.43	67.87	19.41	20.29
December	102.44	102.06	13.44	13.79	10.0	10.5	69.29	67.41	19.71	20.87
January 1984	103.42	103.09	13.61	13.85*	10.3	10.5*	69.61	68.29*	20.20	20.95
February	104.10	103.47	13.85	13.79	10.2	10.4	69.94	68.76	20.15	20.92
March	104.73	103.99	13.98	13.69	10.3	10.5	70.29	69.23	20.31	21.07
April	105.25	104.66	14.01	13.85	10.4	10.6	70.72	69.57	20.46	21.24
May	106.23	105.30	14.20	14.06	10.4	10.6	71.30	69.74	20.52	21.50
June	107.06	105.96	14.40	14.20	10.5	10.7	71.93	69.94	20.73	21.82
July	107.93	106.64	14.56	14.46	10.6	10.7	72.35	70.40	21.02	21.78
August	108.65	107.40	14.72	14.60	10.6	10.7	72.83	70.95	21.10	21.85
September	109.35	108.18	14.81	14.84	10.7	10.6	73.31	71.51	21.23	21.83
October	110.16	108.74	14.88	14.82	10.7	10.6	73.78	71.86	21.50	22.06
November	111.04	109.24	14.96	14.84	10.8	10.7	74.37	72.12	21.71	22.28
December	111.96	109.39	15.11	14.94	10.8	10.6	75.00	72.34	21.85	22.11

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	1.584	1.654	0.993	1.002	1.449	1.630	277.6	271.7	179.1	171.0
November	1.542	1.755	0.972	1.097	1.386	1.642	277.8	275.5	178.9	174.6
December	1.491	1.667	0.946	0.972	1.297	1.605	276.6	275.0	177.8	172.8
January 1984	1.498	1.737*	0.981	1.026*	1.273	1.663*	276.2	279.2*	177.1	175.3*
February	1.472	1.836	0.932	1.088	1.255	1.627	274.8	279.0	175.6	174.7
March	1.512	1.824	0.900	1.108	1.276	1.633	276.0	281.2	175.9	175.6
April	1.527	1.796	0.942	1.103	1.275	1.588	278.6	284.1	177.1	176.8
May	1.535	1.771	0.971	1.099	1.296	1.562	280.2	228.5	177.6	178.9
June	1.538	1.747	0.997	1.095	1.321	1.576	282.1	292.3	178.1	180.4
July	1.572	1.735	1.005	1.086	1.342	1.592	284.7	294.3	179.2	180.9
August	1.627	1.716	1.026	1.063	1.411	1.573	289.2	294.0	181.3	180.0
September	1.655	1.712	1.043	1.040	1.446	1.551	292.9	294.4	182.9	179.5
October	1.627	1.738	1.040	1.057	1.427	1.577	294.7	297.2	183.3	180.4
November	1.586	1.759	1.048	1.065	1.411	1.609	296.5	300.2	183.7	181.5
December	1.549	1.759	1.011	1.066	1.363	1.615	297.3	302.6	183.4	182.1

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	101.3	101.3	53.5	48.7	122.8	121.7
November	100.6	106.1	53.7	50.1	123.5	119.2
December	100.7	106.7	54.0	50.1	121.9	118.2
January 1984	101.1	107.6*	55.3	51.1*	119.8	120.5*
February	102.2	107.3	55.0	51.4	117.6	120.3
March	103.4	107.9	57.0	51.8	115.6	121.5
April	103.8	108.8	57.5	52.5	117.3	122.8
May	103.6	110.5	58.0	53.1	118.6	124.9
June	103.8	112.1	58.4	53.7	119.9	126.5
July	104.5	113.5	59.0	54.0	121.2	126.8
August	105.8	114.3	59.5	54.4	123.9	125.3
September	107.0	115.4	60.1	54.8	125.8	124.2
October	107.6	116.9	60.8	55.3	126.3	125.0
November	108.1	118.2	61.4	55.9	127.0	126.1
December	108.8	119.6	62.0	56.5	126.5	126.5

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	265.1	260.8	93.65	93.37	24.36	26.00	23.49	23.08
November	267.6	260.6	94.07	96.51	24.69	24.58	23.57	24.26
December	269.4	260.7	94.88	96.69	25.13	25.13	23.80	25.90
January 1984	271.8	261.2*	95.36	95.83*	25.42	25.63*	24.03	25.08*
February	275.6	263.5	94.49	96.07	25.40	25.41	24.22	24.96
March	277.5	264.5	95.87	96.38	25.68	25.36	24.43	25.02
April	280.3	266.7	96.91	97.92	26.03	25.68	24.68	25.26
May	282.5	267.8	97.15	98.87	26.17	26.25	24.91	25.44
June	285.9	269.3	98.24	100.12	26.29	26.51	25.23	25.61
July	288.7	271.0	98.82	100.68	26.25	26.79	25.49	25.78
August	291.3	272.5	100.07	100.96	26.43	26.44	25.63	25.87
September	294.4	274.4	102.93	102.72	27.01	26.77	25.80	25.79
October	298.2	276.5	103.46	104.31	27.06	27.23	26.03	25.96
November	300.9	277.9	103.61	105.64	27.11	27.61	26.31	26.13
December	303.6	279.9	103.89	106.32	27.20	27.85	26.60	26.29

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	520.4	516.0	5.47	5.59	154.9	155.0	78.6	78.7
November	524.7	518.0	5.83	5.66	156.0	156.1	79.0	79.1
December	529.1	519.6*	6.06	5.63	157.1	156.9	79.4	79.4
January 1984	535.6	522.5	6.18	5.80*	158.5	158.9*	79.9	80.3*
February	540.3	526.3	6.21	5.94	159.3	159.5	80.1	80.5
March	544.1	529.8	6.24	6.07	160.1	159.8	80.3	80.6
April	550.7	532.4	6.38	6.15	160.9	160.4	80.6	80.8
May	555.6	536.3	6.52	6.18	161.7	161.1	80.8	80.9
June	560.0	539.5	6.81	6.22	162.5	161.8	81.0	81.1
July	566.1	542.8	6.86	6.38	162.2	162.3	80.7	81.2
August	570.5	546.7	6.95	6.55	162.0	162.7	80.5	81.2
September	576.6	550.6	7.04	6.70	162.8	163.1	80.7	81.3
October	582.0	554.7	7.18	6.85	164.0	163.7	81.1	81.4
November	589.1	558.9	7.35	6.94	165.0	164.3	81.4	81.5
December	595.4	562.1	7.48	7.03	165.7	164.9	81.6	81.7

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	302.5	302.7	287.8	287.8	319.5	318.7	2.1813	2.1791
November	303.5	303.6	289.1	287.3	320.6	318.3	2.1892	2.1843
December	304.4	304.4	290.0	287.8	321.8	318.4	2.1978	2.1924
January 1984	305.6	306.2*	291.1	288.2*	322.6	318.0*	2.2071	2.2073*
February	306.6	307.7	292.0	289.9	323.7	319.8	2.2162	2.2175
March	307.7	309.1	293.5	291.7	324.9	322.0	2.2254	2.2271
April	309.0	309.7	294.7	293.1	326.1	323.0	2.2337	2.2326
May	310.0	310.7	295.6	294.1	327.1	323.8	2.2419	2.2404
June	311.1	311.8	296.7	295.2	328.2	324.7	2.2502	2.2482
July	312.6	313.0	298.2	296.5	329.4	325.8	2.2600	2.2563
August	314.3	314.3	300.0	297.8	331.0	326.8	2.2695	2.2656
September	316.6	315.6	302.5	299.1	332.6	327.5	2.2791	2.2750
October	317.9	316.8	303.9	301.2	334.7	329.9	2.2929	2.2887
November	318.9	317.8	305.1	302.3	335.3	330.2	2.3020	2.2973
December	320.0	318.9	306.5	303.5	336.0	331.0	2.3108	2.3060

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	215.9	215.9	180.5	180.2	217.2	215.9	226.9	227.8	155.0	158.8
November	216.3	216.2	181.3	180.1	217.5	215.3	227.9	229.0	155.3	157.8
December	217.7	216.9	182.1	180.9	217.9	215.3	229.0	230.5	155.6	159.1
January 1984	218.3	217.9*	182.8	181.5*	218.7	216.9*	229.8	231.4*	156.0	159.3*
February	218.9	219.3	183.2	181.9	219.6	219.0	230.7	232.4	156.5	159.7
March	219.6	220.4	183.6	182.3	220.5	220.5	231.6	233.5	156.9	160.1
April	220.2	220.6	184.3	182.7	221.3	220.0	232.6	234.6	157.3	160.7
May	221.4	221.3	184.8	183.1	222.2	220.3	233.7	235.4	157.8	161.3
June	222.6	222.1	185.4	183.5	223.1	220.6	234.5	236.2	158.4	162.0
July	223.7	222.9	186.0	184.3	224.5	221.5	235.4	237.3	158.9	162.7
August	224.4	223.8	186.5	185.0	225.6	222.7	236.6	238.3	159.5	163.3
September	225.0	224.7	187.1	185.7	226.8	223.9	237.8	239.4	160.1	164.0
October	226.3	225.6	188.0	186.3	227.7	224.4	238.7	240.5	160.8	164.7
November	227.3	226.5	188.4	186.7	228.8	224.9	239.8	241.6	161.4	165.4
December	228.4	227.4	188.8	187.1	229.8	225.4	240.9	242.7	162.1	166.2

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	-7205	-8966	160.4	162.4	3438	3412	1576	1566	17.3	10.3
November	-5076	-7401	160.8	161.9	3462	3433	1581	1572	17.9	9.1
December	-5918	-6300	161.8	162.9	3487	3451	1587	1574	17.6	7.9
January 1984	-6128	-7405*	161.9	163.9*	3520	3498*	1595	1585*	19.1	9.4
February	-6491	-7925	161.5	164.3	3556	3525	1604	1590	20.2	10.3
March	-6853	-6142	162.0	164.5	3594	3557	1615	1597	21.3	11.7
April	-6546	-6842	162.4	165.2	3620	3578	1621	1603	20.8	15.8
May	-6827	-7965	162.9	165.3	3639	3605	1623	1609	21.0	20.4
June	-6652	-7872	163.3	165.9	3659	3635	1626	1617	19.4	21.7
July	-6943	-8463	163.9	166.4	3685	3660	1630	1622	21.5	17.6
August	-7311	-8280	164.8	166.8	3712	3678	1636	1623	22.0	15.9
September	-7649	-8116	165.8	167.3	3741	3704	1641	1628	22.6	15.1
October	-7742	-8465	166.5	167.2	3779	3742	1648	1635	22.3	18.4
November	-7625	-8280	167.0	167.0	3814	3767	1657	1640	22.4	18.0
December	-7546	-8096	167.6	167.3	3851	3793	1667	1645	22.6	18.2

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	197.9	198.1	518.6	517.9	2159.7	2161.6	9.57	9.48	8.88	8.83
November	199.0	199.5	522.3	518.3	2179.6	2174.6	9.17	9.34	8.70	8.93
December	200.2	199.7	526.0	521.1	2198.4	2184.7	9.06	9.47	8.61	9.17
January 1984	201.5	201.4	528.3	524.8*	2214.3	2195.3*	8.89	9.56	8.42	9.01
February	202.6	203.0	530.6	527.4	2232.3	2209.8	8.72	9.53*	8.16	9.02*
March	203.9	204.6	533.0	530.3	2250.0	2223.7	8.76	9.44	8.23	8.73
April	205.1	205.7	537.2	533.9	2271.6	2239.6	8.85	9.36	8.30	8.80
May	206.4	206.8	541.4	536.5	2292.9	2259.5	8.93	9.37	8.51	8.76
June	207.7	207.9	545.6	539.1	2314.1	2278.8	9.01	8.78	8.42	8.71
July	208.9	209.2	548.9	540.6	2332.9	2291.2	9.10	8.93	8.40	8.75
August	210.0	210.4	551.1	542.5	2350.6	2302.3	9.12	9.02	8.43	8.85
September	211.1	211.6	553.3	544.5	2369.4	2313.6	9.15	9.11	8.42	8.93
October	212.4	212.9	557.1	548.8	2387.2	2337.4	9.29	9.39	8.49	9.06
November	213.6	214.1	559.9	553.3	2406.5	2358.4	9.39	9.86	8.53	9.29
December	214.7	215.3	562.6	558.4	2425.8	2379.2	9.51	9.91	8.78	9.37

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
October 1983	12.24	12.25	9.65	9.66	9.09	8.99	9.21	9.18	11.00	11.00
November	12.10	12.41	9.54	9.75	8.96	9.10	9.15	9.36	11.00	11.00
December	12.05	12.57	9.52	9.93	8.92	9.53	9.11	9.69	11.00	11.00
January 1984	11.79	12.20	9.02	9.58	8.83	9.20	9.04	9.42	11.00	11.00
February	11.62	12.13*	8.84	9.46*	8.70	9.15*	8.87	9.35*	10.50	11.00
March	11.64	12.18	8.91	9.48	8.79	9.07	8.96	9.29	10.50	11.00
April	11.70	11.96	9.00	9.27	8.95	9.00	9.12	9.23	10.50	11.00
May	11.81	11.86	9.09	9.16	9.03	9.02	9.21	9.25	10.50	11.00
June	11.78	11.77	9.09	9.06	9.12	8.85	9.33	9.11	10.50	11.00
July	11.63	11.80	8.93	9.09	9.25	8.97	9.47	9.20	10.50	11.00
August	11.48	11.85	8.87	9.16	9.23	9.06	9.51	9.25	10.50	11.00
September	11.43	11.89	8.86	9.21	9.28	9.15	9.58	9.43	10.50	11.00
October	11.59	12.04	8.98	9.38	9.34	9.22	9.65	9.51	10.50	11.00
November	11.60	12.26	9.03	9.58	9.42	9.63	9.67	9.86	10.50	11.19
December	11.63	12.48	9.06	9.80	9.55	9.85	9.81	10.09	10.50	11.50

Fore. = November Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

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Dear Subscribers of Monthly Projections:

We apologize for the irregular schedule of this publication and the substantial break in time since our last release. We have been trying to reduce the volatility in estimated monthly GNP by fully incorporating a monthly income and expenditures accounting methodology. Although our estimates of monthly GNP continue to be more volatile than the monthly coincident index, industrial production, or personal income, the monthly estimates appear to be sufficiently reasonable to utilize in our Monthly Projections.

It is our intention to provide a more regular report than in the past. Upon the release of monthly personal income estimates and the GNP revisions that are used to adjust our monthly estimates, we plan to provide a preliminary estimate of GNP for the same month. The Projections will use that preliminary estimate in its tables. Thus, the Monthly Projections should be prepared and distributed by the end of the week following the personal income release. This schedule will be used during those months when GNP estimates will be revisions rather than the initial report for a quarter.

Because of speculation concerning GNP estimates prior to the initial release of the quarterly GNP, the Monthly Projections will be released in the week following the Employment Situation report during January, April, July, and October. This timing also permits sufficient time following the July GNP revisions to update our data series before releasing the next Monthly Projections late in August. We hope the regularity of this schedule will increase the usefulness of this publication.

For those regular Monthly Projections subscribers, the renewal rate will by $25.00 to compensate for the irregularity of the publication in the prior year. All new subscribers will continue to pay $50.00 per year for this publication.

We hope the Monthly Projections and this new schedule will prove to be beneficial to you.

Sincerely,

Donald Ratajczak

Donald Ratajczak
Director

6/5/84 U1880-3 A

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MONTHLY PROJECTIONS
FOR MAY

Issued May 29, 1984

SURGE IN INVENTORIES STRENGTHENS ECONOMY AND RAISES INTEREST RATES

As recently as the quarterly forecast prepared in early May, it appeared that inventories would maintain a substantially lower relationship relative to production and sales in this cycle than during previous cycles after adjustment for underlying trends. Substantial reductions in inventory accumulations relative to economic activity during the latter half of 1983 raised the question whether something fundamental had happened to the inventory relationship. New management processes, such as just-in-time inventory ordering, were used to explain the especially favorable inventory accumulation performance. Better communications between suppliers, producers, and distributors also were cited as reducing the need for inventory in comparison with goods production.

A dramatic acceleration in inventory accumulation, accentuated by an unusually large inflation-adjusted rate of accumulation during the first quarter, began to alter that viewpoint. In April substantial increases in production, especially in durable goods industries, without supporting increases in shipments suggest that inventories continued to rise rapidly during the spring. Now that delivery delays are lengthening for key production materials, a return to more normal inventory relationships appears to be rapidly developing. What was billed as a new approach to inventory investing now appears to be little more than an attempt to stick the customers and suppliers with the role of financing inventories. This shift in financing probably will become the new normal procedure for adjusting inventories to desired activity.

Unfortunately, this shift in inventory behavior substitutes unutilized production for existing inventory stocks in determining production and pricing plans until delays become substantial. With fewer stocks to serve as buffers, overtime hours will be more readily utilized to meet unexpected changes in orders. Also, commodity prices will be more prone to intensify in those industries experiencing unexpectedly strong orders, such as the paper, gypsum board, and plastic construction materials industries. Thus, inflation, overtime hours, and even imports may be more intensely utilized to offset the underutilization of inventories in the early stages of an economic rebound.

Also, the change in timing of inventory accumulation has altered the timing of interest rate pressures. Normally, inventories swing from liquidations to accumulations during the first year of an economic rebound. Early in the second year, inventory accumulations reach compatibility with prevailing production and sales and begin slowing their rate of accumulation. When the economy slows its rate of advance at that time, interest rates sometimes reach their lowest level during the cycle (interest rates are well known lagging indicators especially during the early phases of an economic rebound).

With accumulations growing more slowly relative to sales and production in the latter part of 1983, interest rates were experiencing less upward pressures than otherwise would have prevailed. (The fact that interest rates rose during the latter half of 1983 despite abnormally low inventory investments and unusually high gains in corporate cash flow probably is related to a significant acceleration in government borrowing during the latter half of that year.) Strong increases in inventory accumulation early in 1984 unquestionably account for a substantial portion of the dramatic surge in short-term borrowings at banks and in the commercial paper market. When inventory accumulations have attained desired levels, economic activity will slow significantly. Moreover, current interest rate levels are now sufficient to reduce housing activity. Thus, a portion of the current strength in inventory accumulations will be at the expense of construction spending late in 1984 and in 1985. However, the tapering in inventory investments and the reduction in housing should not be sufficient to reduce interest rates during the next year. Instead, strong growth in fixed investments coinciding with rising borrowing costs will preserve rapid loan expansion as corporations continue their investment programs. Higher returns to interest recipients will partially be converted into increased consumption, which should maintain reasonable economic expansion into 1985. However, this mix of economic activity should continue to exert upward pressures upon interest rates until a slowing in the growth of fixed investment develops or an abrupt change in consumer spending patterns leads to the inventory excesses that culminate in reduced production.

Quarterly Profile of GNP

	1984-I	1984-II	1984-III	1984-IV	1985-I	1985-II
Real	8.8	5.2	4.1	2.9	2.7	2.8
Price	3.7	4.6	5.1	5.6	6.2	6.2
Nominal	12.8	10.0	9.3	8.6	9.1	9.2

Monthly Statistical Highlights
for May 1984

Payroll employment +202,000; Index of Hours Worked unchanged; Household employment +241,000; Civiliam Unemployment Rate 7.7%; Personal Income +0.6%; Savings Rate 5.5%; Personal Consumption +0.9%; Retail Sales +1.4%; Auto Sales 10.5 million; Housing starts -9.8%; Housing Permits -2.1%; Construction expenditures +1.2%; Business inventories +0.8%; Orders for durable goods +1.0%;

Orders for nondefense capital goods +0.7%, Industrial production +0.7%; CPI +0.4%; PPI +0.2%; Consumption deflator +0.2%; Leading Indicators +0.2%; Real GNP 7.7%; M1 12.1%; M2 11.4%.

Monthly Statistical Highlights
for June 1984

Payroll employment +139,000; Index of Hours Worked +0.1%; Household employment +196,000; Civilian Unemployment Rate 7.7%; Personal Income +0.5%; Savings Rate 5.4%; Personal Consumption +0.6%; Retail Sales +0.4%; Auto Sales 10.5 million; Housing starts -0.1%; Housing Permits -3.1%; Construction expenditures +0.1%; Business inventories +1.1%; Orders for durable goods +2.8%; Orders for nondefense capital goods +2.4%, Industrial production +0.4%; CPI +0.4%; PPI +0.4%; Consumption deflator +0.5%; Leading Indicators +0.4%; Real GNP 1.5%; M1 7.6%; M2 11.5%.

Commentary

Employment - A 0.6 hours increase in the manufacturing workweek occurred in April. This expansion in hours reflects significant use of overtime to meet rising orders associated with a developing surge in inventory investments. Employment is expected to continue growing strongly in May as overtime is replaced by new hires. Even with little further gain projected for the Index of Hours Worked during the second quarter, that index is expected to increase 5.2% at annual rates. This coincides with our current projection of a 5.2% gain in real GNP, suggesting that little improvement in productivity developed during the spring. The Hourly Earnings Index accelerated in April, but most of the gain was in the service sector. This suggests that unit labor costs will be increasing by more than 5%, well above the 2% annual rate of gain during the winter. Unless our estimates for prices are too low, corporate profits will show little growth during this quarter. Any increased returns to capital will be fully utilized to pay increasing returns to interest rate recipients.

Personal Income and Outlays - Farm income fell by $15 billion in April as PIK disbursements declined. Thus, a modest advance in personal income during April hides a significant surge in national income. The wage and salary component increased by 1.2% and property income also grew at double-digit rates. Personal savings fell sharply, but this was almost totally attributed to the end of PIK transfers, which should not have had a material impact upon consumption. The savings rate fell to 5.5%, which is below the 6.0% post-war average. Sharp reductions in the market value of wealth and the possible heightening of uneasiness associated with rising interest rates should generate gradually rising savings rates as the year progresses.

Automobile sales continue to rebound sharply, although more rapid growth in sales than production could lead to some shortages in domestic vehicles by early summer. Imports initially will take up the sales slack, but they will be restrained early in 1985. A sharp decline in furniture orders during March was nearly reversed in April, but shipments currently are running ahead of orders in that household sector. This probably indicates that furniture sales are beginning to weaken. An acceleration in projected nondurable sales is associated with more rapid price changes for energy components than had originally been anticipated.

Construction - Single-family starts already are showing downward pressures from rising interest rates. A rebound in April merely reflects a snapback from weather-distorted activity in March. The trend in single-family starts clearly is downward. However, multi-family units continue to defy rational economic analysis. Despite developing signs of increased vacancies, especially in the South, rental units continue to increase their rate of construction activity. The 863,000 starts in April was a cyclical high. Weather factors probably bunched some activity in April, but there are not yet any signs that construction of rental property is beginning to decline under the pressures of rising interest rates. At some point, investment syndicators will begin withdrawing from the rental market. When that occurs, a more dramatic decline in housing starts is possible than that which is currently being projected.

Because of the strength in rental activity, spending for residential construction is expected to continue rising through May, before a downturn gradually develops. Nonresidential construction will largely offset this declining pattern in the residential market. Increased construction for highways will significantly raise the volume of public construction as the year progresses. Despite some termination in nuclear power facilities, private nonresidential construction is expected to continue growing rapidly. Industrial space will be contributing most to the rate of advance while commercial space other than office buildings must slow from the 50% rate of advance that has been achieved in the past year. Office space is expected to continue growing despite evidence that many cities are beginning to overbuild. By the beginning of 1985, all commercial construction should no longer exhibit growth after adjustment for inflation. However, continuing expansion in industrial projects should be sufficient to generate continued strong growth in nonresidential private construction.

Because of shortages for some construction materials, the implicit construction deflator began accelerating in March. According to PPI estimates, further strong price gains are likely in April. However, declining lumber prices and only modest increases in prices for structural steel should prevent a surge in construction costs. Nevertheless, some acceleration in construction inflation rates is anticipated during the next year.

Business Activity - A sharp decline in durable goods orders during April was largely related to a drop in defense orders from $11.54 billion in March to $6.87 billion in April. However, durable orders would have declined even if the volatile defense category had been eliminated. Weakness occurred in orders for nondefense capital goods. A corresponding decline in both shipments and orders suggests that the advance survey overlooked some data sources. A significant upward revision is anticipated for durable goods orders and for nondefense orders and shipments, although no adjustments were made in the projections tables. Orders for nondefense capital goods are expected to reaccelerate late in 1984 as capacity utilization slowly moves toward 83%.

Manufacturing inventories now are growing much more rapidly than earlier in the recovery. As a result, manufacturing inventory holdings have been substantially increased. Changes in business inventories are not as dramatic, as the wholesaler never altered inventory patterns from previous behavior. However, more rapid growth in retail inventories still could develop, leading to more significant near-term economic activity than currently projected. However, such a surge in retail inventory holdings would lead to further near-term increases in interest rates and a more substantial slowing in the interest-sensitive components of the economy during 1985.

Prices - Although the CPI expanded by 0.5% in April, components of the PPI suggest, on the surface, that inflation remains well contained. Moreover, declining food prices are expected to restrain the CPI and the PPI in May. However, sharp price increases for nonenergy nonfood crude materials and sharp increases in prices of some intermediate materials suggest that inflationary pressures are beginning to intensify. Utilization rates are not yet at the level that would significantly incite demand-oriented inflation. Moreover, wages are not yet showing any significant accleration. Nevertheless, price pressures appear to be building. Moreover, prices of services are beginning to intensify. Usually, consumer prices continue to slide into the second year of an economic rebound because the heavily wage-oriented service components continue to recede. However, price increases for utilities, housing, and the financing of automobile purchases suggest that the deceleration in service inflation has passed.

Miscellaneous - Declines in agricultural commodity prices and a slowing in the rate of inflation of energy materials during the second quarter account for a more modest rate of growth in the IVA in that quarter than earlier in the year. Most of the expansion in GNP during the first quarter occurred in January. Normally, this would mean that the second quarter would be growing very slowly. However, a renewed surge in inventory rebuilding during April indicates that activity will continue spurting forward into the summer.

Financial Markets

A sharp widening of the gap between commercial paper and 90-day CDs reflects the current reduction of confidence in the banking community. This significant premium required to raise funds is expected to gradually recede. However, a reduced spread between CDs and the prime rate indicates that any firming in rates on Federal funds will almost immediately create a prime rate move to 13%. It should also be noted that the commercial paper rate has again begun to trade above the Federal funds rate, suggesting that loan demand rather than Federal Reserve restraint may be responsible for the latest upsurge in interest rates. In fact, the Federal Reserve has significantly eased restraints by allowing liberal use of the discount window to counter the loss of foreign deposits by several money center banks. As CDs are becoming an expensive source of money, banks may begin liquidating their Treasury bill holdings. Indeed, the T-bill rate could move toward the rate on Federal funds if the current strength in loan demand does not diminish.

A sharp decline in the money multiplier in March and April suggests that seasonal distortions are indeed influencing the measurement of deposits. These distortions are expected to begin reversing in May and June. This largely explains the surge in the money stock at that time. It also explains one reason why rapid money growth and rapid increases in interest rates can develop simultaneously. The Federal Reserve is expected to remain accommodative until pressures on bank deposits have diminished. Therefore, no substantial increases are expected from current levels for most short-term interest rates until the fall. At that time, some moderation in inventory investment may continue to preserve relatively stable interest rates into the early months of 1985. Accelerating inflationary pressures, an end to concerns about the election, and increased corporate borrowings should place further upward pressures upon interest rates by the spring of 1985.

Equity Markets

As mentioned above, operating profits minus tax liabilities should show little increase during the spring. A reduction in the inventory valuation adjustment will lower the effective tax on operating profits, but that influence should be only sufficient to offset the increased payments to interest recipients and the increased wage bill relative to revenue being generated currently in the corporate sector. Under such conditions, rising interest rates during the spring should have coincided with declining equity values. However, the magnitude of decline in the market value of equities exceeds the decline in the discounted value of corporate earnings. Apparently, the stock market is looking ahead to even further erosion in profitability and further increases in interest rates. They will be forthcoming, but not until 1985. If interest rates stabilize during the summer, as our analysis currently assumes, equity values could rebound significantly. Currently, the stock market is evaluating equity ownership about 100 points below what our methodology normally would estimate. Therefore, a stock market rally in the summer months cannot be ruled out. However, equity values are not expected to regain previous peaks and may even be hard pressed to exceed 1200 on the Dow Jones. Equity values then would again decline early in 1985 as corporate liquidity becomes stretched and as interest rates once again are expected to rise. Currently, the peak in interest rates is expected to occur beyond the first half of 1985.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	91930	91930	110.1	110.1	103190	103190	8.0	8.0	158.3	158.3
February	92347	92347	110.4	110.4	103892	103892	7.8	7.8	158.2	158.2
March	92490	92506	109.8	109.9	104140	104140	7.8	7.8	158.7	158.8
April	92773	92913	110.4	111.5	104503	104402	7.7	7.8	159.5	159.6
May	92885	93117*	110.7	111.5*	104667	104643*	7.6	7.7*	160.1	160.2*
June	92996	93256	110.9	111.6	104832	104818	7.6	7.7	160.8	160.9
July	93127	93415	111.1	111.8	104949	105012	7.6	7.7	161.4	161.6
August	93362	93578	111.3	111.9	105172	105207	7.5	7.7	161.9	162.3
September	93598	93745	111.5	112.1	105394	105406	7.5	7.6	162.5	163.1
October	93742	93913	111.7	112.2	105547	105612	7.4	7.5	163.1	163.9
November	93865	94075	111.9	112.4	105678	105819	7.4	7.5	163.8	164.7
December	94015	94242	112.0	112.6	105839	106053	7.4	7.4	164.6	165.6
January 1985	94226	94405	112.3	112.9	106091	106334	7.4	7.3	165.2	166.2
February	94389	94589	112.5	113.1	106311	106500	7.4	7.3	166.0	167.0
March	94543	94802	112.8	113.3	106537	106807	7.3	7.2	166.8	167.8
April	94698	94935	113.0	113.4	106703	106989	7.3	7.2	167.5	168.6
May	94843	95019	113.1	113.5	106873	107160	7.2	7.2	168.3	169.5
June	95002	95183	113.3	113.6	107048	107340	7.2	7.1	169.3	170.3

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	2.902	2.907	1.748	1.749	118.9	117.2	2.483	2.487	2.364	2.370
February	2.923	2.927	1.757	1.757	152.6	158.5	2.501	2.506	2.349	2.347
March	2.949	2.942	1.764	1.763	188.4	163.1	2.526	2.519	2.337	2.356
April	2.955	2.957	1.777	1.784	157.5	146.9	2.534	2.529	2.376	2.382
May	2.965	2.976*	1.785	1.791*	145.8	139.5*	2.539	2.544*	2.393	2.405*
June	2.974	2.992	1.797	1.800	136.1	137.3	2.545	2.556	2.409	2.419
July	2.999	3.011	1.806	1.812	137.3	136.8	2.564	2.574	2.427	2.437
August	3.025	3.036	1.816	1.821	143.7	139.6	2.584	2.593	2.440	2.453
September	3.051	3.065	1.825	1.833	149.2	145.1	2.605	2.616	2.455	2.471
October	3.068	3.083	1.835	1.844	148.3	141.7	2.619	2.631	2.471	2.489
November	3.085	3.101	1.846	1.856	142.6	137.9	2.632	2.645	2.489	2.507
December	3.101	3.120	1.857	1.870	139.3	136.4	2.644	2.659	2.507	2.523
January 1985	3.122	3.142	1.871	1.885	137.1	142.2	2.664	2.680	2.527	2.538
February	3.149	3.170	1.883	1.898	143.7	147.7	2.686	2.703	2.543	2.555
March	3.174	3.192	1.898	1.910	154.5	152.8	2.708	2.723	2.555	2.570
April	3.198	3.216	1.909	1.921	156.6	155.2	2.730	2.745	2.573	2.590
May	3.217	3.237	1.919	1.933	152.7	152.5	2.745	2.761	2.592	2.609
June	3.240	3.258	1.932	1.944	154.5	153.3	2.764	2.779	2.611	2.626

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	2294.7	2301.3	322.4	322.1	850.0	852.5	1122.3	1126.6	1053.9	1057.4
February	2278.6	2277.0	314.3	312.1	842.2	839.6	1122.0	1124.7	1047.2	1046.2
March	2268.3	2285.1	294.2	309.9	841.0	837.8	1133.1	1137.4	1039.3	1045.1
April	2305.4	2310.9	311.0	314.1	848.8	851.5	1145.6	1145.3	1052.8	1054.7*
May	2321.5	2332.7*	312.1	322.5*	854.5	857.6*	1154.9	1152.6*	1055.1	1062.1
June	2336.9	2346.0	313.0	322.7	860.0	862.8	1163.9	1160.5	1057.2	1063.3
July	2354.2	2363.2	315.6	324.9	866.0	869.5	1172.6	1168.8	1060.6	1065.9
August	2366.8	2378.6	317.6	325.1	868.1	876.6	1181.1	1176.9	1061.9	1068.0
September	2379.8	2395.3	319.7	327.3	870.8	882.3	1189.3	1185.7	1062.4	1070.6
October	2396.3	2413.0	321.6	328.5	877.3	889.1	1197.4	1195.4	1065.8	1073.2
November	2413.2	2430.1	323.4	330.3	883.2	895.5	1206.6	1204.3	1069.5	1076.0
December	2429.7	2444.5	325.3	330.2	888.9	901.5	1215.5	1212.8	1071.6	1077.3
January 1985	2449.0	2459.4	329.4	331.2	895.0	907.3	1224.6	1220.9	1075.5	1078.8
February	2464.7	2475.6	332.1	333.8	898.5	912.5	1234.1	1229.3	1079.4	1080.9
March	2476.4	2490.8	330.0	333.7	902.9	918.3	1243.5	1238.8	1079.5	1082.2
April	2493.7	2510.1	332.6	336.0	908.4	926.1	1252.7	1248.0	1082.3	1085.8
May	2511.6	2527.9	334.7	337.8	915.6	931.2	1261.3	1258.9	1085.5	1088.1
June	2529.8	2543.9	338.4	339.5	921.5	936.9	1269.9	1267.5	1088.7	1090.0

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	106.16	106.60	14.42	15.09	11.2	11.2	69.85	69.48	21.89	22.03
February	105.98	105.48	14.62	14.93	10.6	10.6	69.31	68.57	22.05	21.98
March	103.40	103.38	14.82	14.56	10.0	10.0	68.15	68.43	20.43	20.38
April	105.69	106.38	14.69	15.06	10.3	10.1	69.50	69.63	21.50	21.69
May	106.27	107.87*	14.63	15.23*	10.4	10.5*	69.97	70.14*	21.67	22.50*
June	106.87	108.32	14.60	15.29	10.5	10.5	70.42	70.56	21.85	22.47
July	107.67	109.12	14.73	15.33	10.6	10.6	70.89	71.11	22.05	22.68
August	108.06	109.73	14.81	15.39	10.6	10.6	71.05	71.69	22.20	22.65
September	108.54	110.45	14.89	15.46	10.5	10.7	71.29	72.16	22.36	22.83
October	109.36	111.15	14.96	15.52	10.6	10.7	71.86	72.71	22.54	22.92
November	110.06	111.88	15.04	15.60	10.6	10.7	72.35	73.24	22.67	23.04
December	110.76	112.36	15.12	15.58	10.6	10.7	72.81	73.73	22.80	23.05
January 1985	111.72	112.95	15.20	15.64	10.8	10.7	73.26	74.20	23.26	23.11
February	112.32	113.69	15.28	15.71	10.9	10.8	73.55	74.63	23.49	23.35
March	112.44	114.14	15.36	15.77	10.7	10.7	73.91	75.10	23.17	23.27
April	113.17	115.05	15.45	15.85	10.7	10.8	74.36	75.74	23.36	23.46
May	114.00	115.68	15.54	15.94	10.7	10.8	74.95	76.16	23.51	23.58
June	114.92	116.34	15.63	16.02	10.8	10.8	75.43	76.62	23.86	23.70

Fore. = May Forecast
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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	260.6	260.9	99.22	99.44	24.64	25.09	23.93	24.09
February	263.8	264.1	101.83	102.35	26.84	27.02	24.05	24.16
March	265.4	267.2	103.45	104.85	25.88	26.86	24.26	25.24
April	267.9	270.5*	100.86	98.12	25.52	25.56	24.32	24.65
May	269.2	273.3	101.25	99.15*	25.65	25.73*	24.55	25.13*
June	270.6	276.0	102.67	101.93	26.02	26.36	24.78	25.54
July	272.8	278.7	103.15	102.92	26.21	26.59	25.10	25.77
August	274.9	280.9	103.18	104.83	26.39	26.88	25.27	26.07
September	276.6	283.4	105.68	105.55	26.86	27.12	25.43	26.41
October	278.6	285.9	106.12	103.29	27.15	27.10	25.65	26.68
November	281.1	288.3	107.28	105.15	27.49	27.38	25.86	26.89
December	283.3	290.8	105.63	106.68	27.18	27.55	26.12	27.06
January 1985	286.1	292.9	105.49	108.43	27.26	28.12	26.41	27.28
February	288.5	295.0	106.26	109.11	27.55	28.49	26.56	27.60
March	290.4	297.1	107.15	111.63	27.65	29.02	26.79	27.88
April	292.7	300.0	109.24	111.55	27.92	29.16	26.95	28.10
May	295.6	303.2	108.55	111.02	27.86	29.05	27.15	28.48
June	298.0	305.9	109.03	112.86	27.99	29.48	27.36	28.74

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	517.8	518.8	5.64	5.72	158.1	158.5	79.9	80.1
February	527.0	527.2	5.82	5.85	159.9	160.1	80.7	80.8
March	531.1	531.9	5.95	5.37	161.1	160.9	81.2	81.0
April	536.9	537.2*	6.01	6.07	161.2	163.1	81.1	81.9
May	541.2	541.5	6.05	6.11*	161.5	164.2*	81.2	82.3*
June	546.4	547.5	6.09	6.21	161.8	164.9	81.2	82.5
July	552.7	552.9	6.27	6.30	162.2	165.4	81.3	82.6
August	557.8	557.9	6.32	6.38	162.7	165.8	81.4	82.6
September	562.1	562.9	6.38	6.53	163.3	166.2	81.5	82.6
October	567.5	568.2	6.49	6.48	163.6	166.5	81.6	82.6
November	573.2	572.9	6.63	6.62	163.9	167.0	81.6	82.7
December	578.0	578.7	6.78	6.79	164.3	167.8	81.7	82.9
January 1985	584.6	584.2	6.87	6.93	165.0	168.3	81.9	83.0
February	589.4	588.9	6.96	7.02	165.7	168.6	82.1	83.0
March	593.8	593.7	7.05	7.11	166.4	169.1	82.3	83.1
April	599.2	598.9	7.24	7.28	166.9	169.4	82.5	83.1
May	604.7	606.6	7.36	7.35	167.3	169.9	82.6	83.2
June	610.0	611.4	7.49	7.51	167.5	170.2	82.6	83.1

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	1.915	1.980	1.241	1.301	1.770	1.817	276.0	275.7	172.6	172.4
February	2.197	2.231	1.360	1.447	1.941	1.946	295.0	292.0	184.0	182.2
March	1.738	1.645	1.173	1.023	1.700	1.728	288.3	295.6	179.1	183.1
April	1.908	1.963	1.205	1.100	1.715	1.725	292.8	300.2*	181.4	184.9*
May	1.766	1.770*	1.148	1.040*	1.616	1.688*	291.4	303.9	180.2	186.2
June	1.705	1.767	1.102	1.056	1.586	1.635	290.0	304.1	178.9	185.5
July	1.758	1.756	1.115	1.032	1.595	1.602	293.3	304.1	180.4	185.4
August	1.706	1.721	1.078	1.007	1.562	1.597	296.1	307.8	181.5	187.2
September	1.666	1.687	1.037	0.986	1.483	1.582	298.5	308.9	182.5	187.3
October	1.659	1.675	1.039	0.981	1.497	1.553	298.8	310.0	182.2	187.5
November	1.675	1.653	1.045	0.965	1.516	1.528	299.0	310.2	182.0	186.9
December	1.669	1.649	1.043	0.943	1.522	1.509	299.4	311.1	181.8	186.5
January 1985	1.666	1.608	1.026	0.927	1.516	1.448	301.6	311.5	182.3	185.9
February	1.649	1.552	1.001	0.889	1.486	1.441	303.9	311.6	182.9	185.0
March	1.632	1.519	0.977	0.885	1.485	1.406	306.3	311.9	183.4	184.2
April	1.622	1.483	0.992	0.862	1.467	1.332	307.4	310.5	183.4	182.5
May	1.589	1.484	0.969	0.873	1.426	1.335	308.5	309.4	183.3	181.0
June	1.578	1.505	0.953	0.878	1.417	1.342	309.8	309.6	183.2	180.4

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	108.3	108.1	50.7	50.7	117.0	116.9
February	114.3	110.9	52.2	52.8	128.5	128.3
March	111.6	111.6	51.5	52.0	125.2	131.9
April	113.2	113.5*	53.0	53.6*	126.6	133.1*
May	113.5	114.3	53.4	54.3	124.5	135.3
June	113.7	115.2	53.9	54.9	122.4	134.0
July	115.8	116.5	54.7	55.4	122.8	132.2
August	117.7	117.9	55.5	55.9	122.9	134.0
September	119.7	119.4	56.3	56.3	122.5	133.2
October	120.6	120.8	56.6	56.9	121.6	132.3
November	121.4	122.1	56.9	57.3	120.7	130.8
December	122.3	123.6	57.2	57.8	119.9	129.7
January 1985	123.8	124.8	57.5	58.2	120.3	128.5
February	125.3	125.8	57.8	58.5	120.8	127.3
March	126.7	127.5	58.0	59.0	121.6	125.4
April	127.9	128.7	58.6	59.2	120.9	122.6
May	129.0	130.0	59.1	59.5	120.3	119.9
June	130.1	131.2	59.7	59.9	120.0	118.5

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	305.8	305.8	289.1	289.1	319.2	319.2	220.87	220.47
February	306.9	306.9	290.2	290.2	320.4	320.4	220.24	220.03
March	307.4	307.6	291.5	291.6	321.9	322.1	221.08	221.07
April	308.6	309.1	292.3	291.7	322.9	322.4	222.23	222.31
May	309.9	310.4*	293.1	292.3*	324.0	323.4*	223.29	222.92
June	311.2	311.6	294.0	293.5	325.1	325.0	224.35	223.82
July	312.7	313.2	295.7	295.0	326.5	326.9	225.33	224.85
August	314.2	314.6	297.3	296.6	327.9	328.9	226.19	225.77
September	315.6	316.0	299.0	298.0	329.2	330.1	227.23	226.78
October	317.1	317.6	300.4	299.6	331.3	332.4	228.14	227.85
November	318.7	319.0	301.7	300.8	332.4	333.6	228.95	228.89
December	320.3	320.6	303.0	302.3	333.6	334.8	230.03	230.01
January 1985	321.7	322.2	304.5	303.8	335.0	336.4	231.53	231.22
February	323.1	323.6	306.0	305.2	336.4	338.0	232.21	232.36
March	324.6	325.3	307.5	306.9	338.1	339.8	233.28	233.56
April	325.9	326.7	308.6	308.4	339.3	341.4	234.38	234.70
May	327.2	328.3	309.7	309.9	340.4	342.9	235.40	235.94
June	328.5	329.9	310.9	311.6	341.5	344.5	236.45	237.04

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	217.7	217.6	181.6	181.2	218.0	217.9	230.7	230.6	159.9	159.9
February	217.6	217.6	180.5	181.1	217.2	217.1	231.2	231.1	160.3	160.3
March	218.3	218.7	179.4	181.0	217.6	218.0	231.8	232.3	161.0	161.4
April	219.0	219.1*	180.9	181.3*	218.1	217.8*	233.0	233.5*	161.4	162.4*
May	220.0	219.6	181.6	182.4	218.9	217.7	234.3	234.6	161.7	163.2
June	221.0	220.6	182.2	183.3	219.7	218.5	235.6	235.7	162.1	163.9
July	222.0	221.7	182.7	184.0	220.9	219.6	236.5	236.9	162.6	164.0
August	222.9	222.7	183.2	184.6	222.0	220.6	237.4	238.0	163.1	164.4
September	224.0	223.7	183.8	185.2	223.3	221.7	238.6	239.1	163.6	164.9
October	224.8	224.8	184.4	185.9	223.9	222.8	239.7	240.3	164.0	165.3
November	225.6	225.8	185.0	186.4	224.5	223.8	240.7	241.5	164.3	166.0
December	226.7	226.9	185.6	187.0	225.2	224.8	241.8	242.7	164.7	166.8
January 1985	227.7	228.0	186.3	187.6	226.0	225.9	242.9	243.9	165.4	167.6
February	228.3	229.0	187.0	188.2	226.9	227.1	244.0	245.0	166.2	168.4
March	229.4	230.2	187.7	188.8	227.8	228.3	245.1	246.2	167.0	169.3
April	230.4	231.2	188.3	189.4	228.8	229.4	246.3	247.3	167.6	170.1
May	231.4	232.3	188.8	190.1	229.7	230.5	247.5	248.6	168.3	170.9
June	232.4	233.4	189.4	190.8	230.6	231.5	248.8	249.8	169.1	171.6

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	-8.26	-8.26	164.7	165.0	3531	3530	1599	1601	11.7	15.6
February	-8.93	-8.93	165.9	167.3	3549	3587	1611	1607	8.6	10.4
March	-9.10	-9.05	165.0	165.5	3544	3558	1603	1609	12.4	16.3
April	-8.96	-9.19*	165.3	167.7*	3583	3599	1612	1619	13.9	6.8
May	-8.86	-8.66	166.0	168.1	3601	3632	1613	1629	15.7	8.9
June	-8.75	-8.92	167.1	168.8	3618	3651	1613	1631	17.5	12.7
July	-8.89	-9.11	167.8	169.3	3651	3674	1620	1634	19.6	17.4
August	-9.21	-9.36	168.5	169.0	3673	3707	1624	1642	20.5	18.5
September	-9.53	-9.58	169.2	169.3	3702	3746	1629	1652	21.4	15.3
October	-9.40	-9.92	169.0	169.6	3726	3763	1633	1652	21.7	16.2
November	-9.45	-9.87	168.7	169.5	3747	3779	1637	1651	21.4	14.3
December	-9.48	-9.95	169.2	170.2	3774	3816	1641	1659	20.2	14.9
January 1985	-9.46	-9.72	169.8	170.6	3813	3838	1647	1660	19.9	16.2
February	-9.41	-9.65	170.3	170.5	3837	3869	1652	1665	19.5	16.3
March	-9.36	-9.68	170.7	171.3	3866	3900	1657	1670	19.1	17.4
April	-9.53	-9.59	170.5	171.2	3894	3926	1661	1673	18.3	16.5
May	-9.62	-9.62	171.1	170.8	3920	3958	1665	1678	18.0	15.7
June	-9.70	-9.48	171.5	170.2	3950	3981	1671	1679	18.2	16.8

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	204.1	204.1	530.0	530.0	2206.1	2206.6	9.56	9.56	9.01	9.02
February	205.2	205.2	532.9	532.9	2222.1	2222.0	9.59	9.59	9.18	9.18
March	207.8	207.5	535.2	535.1	2228.5	2228.8	9.91	9.91	9.66	9.66
April	209.0	208.5	535.0	535.1	2241.6	2242.1	10.42	10.29	9.73	9.84
May	210.1	209.8*	539.3	540.2*	2253.9	2262.4*	10.61	10.33*	9.78	10.19*
June	211.2	210.9	543.6	543.5	2268.0	2283.0	10.56	10.69	9.82	10.26
July	212.4	212.1	546.3	546.6	2286.1	2300.5	10.62	10.89	9.85	10.18
August	213.6	213.3	549.6	549.9	2306.7	2318.9	10.59	11.06	9.83	10.29
September	214.8	214.7	552.9	553.5	2325.8	2339.2	10.77	11.16	10.11	10.42
October	215.9	216.1	555.7	557.1	2340.6	2359.6	10.85	11.08	10.21	10.36
November	217.0	217.0	558.6	559.4	2359.9	2376.5	11.07	11.03	10.29	10.11
December	218.1	217.9	562.1	561.7	2368.7	2392.4	11.17	11.26	10.33	10.37
January 1985	219.4	219.0	565.4	564.6	2390.5	2410.8	11.05	11.17	10.15	10.22
February	220.7	220.1	569.0	567.6	2414.5	2429.4	11.09	11.37	9.97	10.46
March	222.0	221.2	572.3	570.6	2439.7	2448.3	11.14	11.52	10.09	10.61
April	223.2	222.3	575.6	573.5	2459.2	2467.0	11.35	11.78	10.19	10.93
May	224.4	223.5	579.0	577.7	2470.9	2490.2	11.43	11.85	10.25	11.03
June	225.6	224.7	582.1	579.7	2482.5	2506.4	11.66	12.04	10.40	11.22

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	12.20	12.20	9.58	9.68	9.20	9.20	9.42	9.42	11.00	11.00
February	12.08	12.08	9.04	9.64	9.32	9.32	9.54	9.54	11.00	11.00
March	12.57	12.57	9.41	9.94	9.82	9.83	10.08	10.08	11.21	11.21
April	12.65	12.81	9.49	10.19	10.26	10.18	10.46	10.41	12.00	11.93
May	12.73	13.21*	9.57	10.36*	10.33	10.68*	10.55	11.36*	12.00	12.33*
June	12.80	13.86	9.66	11.01	10.35	10.76	10.58	11.22	12.00	12.50
July	13.09	13.72	9.95	10.81	10.43	11.12	10.63	11.43	12.00	12.68
August	13.22	13.95	10.11	11.02	10.58	11.39	10.70	11.68	12.00	13.00
September	12.84	14.06	9.76	11.11	10.75	11.51	10.89	11.74	12.48	13.00
October	13.03	13.88	9.97	10.96	10.92	11.37	11.04	11.59	12.50	13.00
November	13.20	13.67	10.16	10.76	11.12	11.19	11.26	11.41	12.50	13.00
December	13.04	13.81	10.02	10.88	11.20	11.29	11.38	11.50	12.62	13.00
January 1985	12.88	13.76	9.85	10.84	11.08	11.31	11.29	11.52	13.00	13.00
February	12.96	13.94	9.97	11.00	11.02	11.35	11.24	11.57	13.00	13.00
March	13.04	14.11	10.07	11.14	11.05	11.49	11.32	11.65	13.00	13.00
April	13.20	14.29	10.23	11.43	11.26	11.74	11.56	11.93	13.00	13.26
May	13.26	14.43	10.34	11.62	11.38	12.01	11.69	12.26	13.00	13.69
June	13.36	14.62	10.49	11.83	11.49	12.16	11.74	12.39	13.27	14.00

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7/2/84 U1880 - 3 A

Georgia State University
a unit of the university system of georgia

university plaza
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college of business administration
economic forecasting project
404/658-3282

MONTHLY PROJECTIONS
FOR JUNE

Issued June 25, 1984

THE BEST HAS PASSED IN INFLATION AND ECONOMIC ACTIVITY

As expected, the winter surge in food prices was temporary. Although a vegetable crop was lost, a new crop was available by mid-spring. As a result, prices have been falling significantly for the food component of GNP. Similarly, rapid winter increases in fuel oil prices have given way to moderate energy price changes during the spring. After rising 5.1% in the winter quarter, the Consumer Price Index is expected to rise slightly less than 4% during the spring. At the same time, a winter surge in prices of construction materials has given way to significant price softness in lumber products. This explains why the inflation rate, as measured by the GNP deflator, is now expected to be only 2.7% in the spring. (The flash estimate was for 2.8%.) More rapid growth in durables, where the price index is smaller than in other GNP categories, also has aided the GNP deflator at this time.

Unfortunately, the spring quarter will determine the low point of inflation for this cycle. Meat prices will begin increasing in the summer months, although the decline in the hog population was not as severe as had been feared. By the end of this year, possible weakening in the value of the dollar could begine to exert some further upward pressures upon other prices. Energy prices also should begin to intensify while hourly wages, which currently are growing at a cyclical low of only 3.2% at annual rates, should start to accelerate. None of this upward pressure anticipated for inflation suggests that prices will be zooming ahead at near double-digit levels next year. Indeed, only external supply shocks have been able to increase inflation by a half dozen percentage points within a year. For that reason, forecasts that inflation will be approaching double digits by the middle of 1985 have little merit. However, inflation should be accelerating, with our projections suggesting that the deflator will be growing about 6% in the first half of 1985.

In the meantime, this slow rate of inflation has sharply increased the purchasing power of consumers, who are experiencing double-digit earnings gains on their property incomes and are also getting above inflation gains on their wages. This strength in consumer purchasing has led to significant increases in durable purchases and has also reversed a declining trend in purchases of nondurables. Indeed, meat consumption appears to be more price responsive than previous models had suggested. When inflation begins to intensify in the summer months, this consumer support will begin to diminish. As single-family housing activity already is slowing under the burdens of high interest rates, significantly slower rates of economic growth will develop. During the next four quarters, our projections show that real GNP will be growing about 3.5%.

Although some economists continue to talk about the possibility of a recession as a result of the high rates of interest, significant gains in orders for durable goods, especially in the machinery categories, suggest that fixed investment will be growing at double-digit real rates of gain well into 1985. Although nonresidential construction appears to be more interest-sensitive than machinery purchases in the short run, that sector also will be growing near double-digits well into 1985. For those reasons, sufficient economic strength will be forthcoming to prevent the development of a recession, at least until an anticipated squeeze in profits early in 1985 begins to diminish the vigor of fixed investments later that year.

Interestingly, the financial markets greeted the second quarter flash estimates with concern, although all the upward revision in real economic activity was the result of downward revisions in inflation from previous anticipations. Indeed, the growth of nominal GNP was in line with anticipations. Apparently, the financial markets are either concerned that rapid real economic growth must lead to significantly higher inflation rates, despite the absence of any evidence of intensifying inflation in the Producer Price Index or in the hourly earnings index, or the rapid growth will lead to policy restraint by the Federal Reserve. Statements from Federal Reserve officials suggest that this latter interpretation of the market's response is more realistic. Given the fact that money growth now is exceeding the Federal Reserves targets, a case can be made for modest increases in Federal Reserve restraint. However, rapid reserve growth and substantial gains in monetary aggregates suggest that the markets are more concerned about possible changes in Federal Reserve policy than they are reflecting changes that already have materialized.

Quarterly Profile of GNP

	1984-I	1984-II	1984-III	1984-IV	1985-I	1985-II
Real	9.7	5.9	4.3	3.3	2.9	3.1
Price	3.9	2.7	5.0	5.3	6.3	5.7
Nominal	13.9	8.8	9.5	8.8	9.4	9.0

Monthly Statistical Highlights
for June 1984

Payroll employment +164,000; Index of Hours Worked +0.4%; Household employment -223,000; Civilian Unemployment Rate 7.5%; Personal Income +0.8%; Savings Rate 5.6%; Personal Consumption +0.4%; Retail Sales +0.6%; Auto Sales

10.5 million; Housing starts +0.6%; Housing Permits -2.4%; Construction expenditures -0.1%; Business inventories +0.9%; Orders for durable goods -0.6%; Orders for nondefense capital goods -4.1%, Industrial production +0.6%; CPI +0.4%; PPI +0.2%; Consumption deflator +0.5%; Leading Indicators +0.4%; Real GNP +3.7%; M1 +14.4%; M2 11.2%.

Monthly Statistical Highlights
for July 1984

Payroll employment +242,000; Index of Hours Worked +0.2%; Household employment +260,000; Civilian Unemployment Rate 7.4%; Personal Income +0.7%; Savings Rate 5.6%; Personal Consumption +0.7%; Retail Sales +0.8%; Auto Sales 10.7 million; Housing starts -1.2%; Housing Permits -2.5%; Construction expenditures +0.0%; Business inventories +0.8%; Orders for durable goods +1.4%; Orders for nondefense capital goods +0.9%; Industrial production +0.3%; CPI +0.5%; PPI +0.4%; Consumption deflator +0.5%; Leading Indicators +0.2%; Real GNP 3.7%; M1 8.0%; M2 11.2%.

Commentary

Employment - Although payroll employment expanded 232,000 in May, The Employment Situation report indicated more weakness than had been anticipated in our previous Monthly Projections. The index of hours worked, which was anticipated to be unchanged, actually showed a 0.2% decline. However, the hourly earnings index also showed a 0.2% decline, indicating that no significant inflationary pressures currently are developing in the labor markets. Although the household estimate of employment surged by 886,000, such a change was discounted as being influenced by seasonal patterns during May. However, some members of the Bureau of Labor Statistics speculated that more strength probably developed in May than was revealed by the index of hours worked. Subsequent reports on industrial production, personal income, and the flash estimates of GNP for the second quarter indicate that The Employment Situation probably understated strength in the labor markets. For that reason, the workweek is expected to expand slightly in June. Although payroll employment is expected to slow, as retail payrolls and construction payrolls both are expected to show modest weakness, the extended workweek should more than compensate for that sign of slowing. Moreover, the especially favorable performance on hourly earnings is not expected to be maintained into the summer months. With hours expanding at a 4.5% annual rate in the private economy, there definitely has been a significant slowing in productivity gains during the second quarter. After increasing a revised 4.5% during the winter, productivity is expected to show less than a 1.5% gain in the spring. However, the especially low gains in wage costs, suggesting that hourly compensation is expanding only at a 4% annual rate, indicate that unit labor costs are running about the same 2.5% that developed in the initial quarter of 1984.

Personal Income and Outlays - Stronger gains in wages and salaries than were justified by the employment report provided the first inkling that activity would be stronger than employment conditions suggested. A slight acceleration in interest earnings added to the May advance in personal income.

A 1.1% increase in personal outlays during May indicated that the previously reported 0.2% expansion in retail sales was incorrect. Although the retail sales estimates showed only a 0.7% gain in auto dealer sales, the outlays figures show a 4.3% increase in expenditures on durables, which was much more consistant with the sharp rebound in unit auto sales. That surge in durable purchases lowered the saving rate to only 5.2% in May. More modest gains in consumer spending should be expected for June. Already, automobile sales for the first ten days of June indicated sales dropped sharply. Indeed, real consumer spending in June currently is projected to decline slightly following exceptionally strong gains in April and May.

Perhaps the May retail sales estimates will be revised sharply upward. Certainly, the large decline in unit auto sales expected for June is not consistent with the increase in dollar sales currently projected. However, our estimates suggest that the June estimates for retail sales are consistent with prevailing conditions. The May increases, on the other hand are sharply below what those conditions would imply. Therefore, retail sales in June may not show a significant gain, if the May retail sales figures are revised sharply upward, as all evidence suggest that they should.

Construction - Single-family starts are beginning to show downward movement under rising interest rate pressures. The effective mortgage rate in May was still less than 14%. By the end of June, the effective mortgage rate was nearly 14.75%. Therefore, further sharp declines in single-family starts should be anticipated. However, the number of building permits available suggests that a further plunge in single-family starts may not develop until mid-summer. Those permits also suggest that no significant further declines should be anticipated for multi-family units. Although multi-family activity appears to be far in excess of levels that can be justified by economic need, demand by investment syndicates remains strong. Later this year, however, significant weakness is expected to development in the multi-family sector.

Spending on private nonresidential construction remains quite vigorous. Although the rate of growth is expected to slow later in 1984 and in 1985, private nonresidential construction still is expected to advance 11.2% in the year ending in June 1985. Public construction also is expected to show significant gains following a slight moderation of activity during April. The release of highway funds is the major impetus for this surge. Residential construction may show a modest rebound in May, but the trend is definitely downward. Although declines are not now expected to be as steep as anticipated during the May forecast, they should be largely uninterrupted well into 1985.

A sharp slowing in the construction cost index during April is expected to be the beginning of significant price moderation through the summer months. Prices then will begin intensifying late in 1984, although the projected weakness in construction will limit the degree of construction costs inflation. In the 12 months ending in June 1985 the construction deflator is expected to increase less than 4%.

Business Activity - Business inventories continued to expand at very rapid rates in April, showing a gain of 1.5%. This increase was the result of a 1.1% advance by manufacturers, a 1.7% advance by wholesalers and a strong 2.1% gain by retailers. Now that auto assembly plants are being closed for downsizing of intermediate cars, inventories at the wholesale and retail levels should grow much more slowly. For example, domestic sales of automobiles were 8.6 million units in May while domestic production was at a 7.7 million rate. Weakness in other categories, however, should generate increasing inventories for nonauto durables and some nondurables. Wholesalers almost certainly will be sharply reducing their inventory gains in May and June, but the manufacturing sector is expected to continue pursuing a relatively sharp buildup. Nevertheless, inventory gains in May and June are expected to be slower than the April surge.

The 2.6% gain in shipments of durable goods during May is much sharper than the gain in durable production. Thus, inventories at the manufacturing level probably showed relatively small gains. Surprisingly, defense shipments continued to show little change. Apparently, production delays are slowing defense shipments at the present time. Those delays are expected to diminish significantly in subsequent months. Shipments of nondefense capital goods, however, rebounded sharply following a surprising drop in April. As orders surged by 10.6% in this sector, further substantial gains in shipments are expected. Indeed, a significant upward revision in spending for nondefense capital goods appears to be required.

Industrial production increased 0.4% in May as a result of no change for consumer goods, automobile production declined slightly, a 0.5% gain in production of industrial materials, and a 0.9% increase in production of business equipment. Further sharp gains are expected in business equipment, while industrial materials may show even slower gains in June as a result of a more significant decline in production of construction materials than the 0.1% decline registered in May. On the other hand, no further reductions in automobile production are anticipated in the next few months. When the downsizing remodeling is completed in August, a significant increase in production of consumer goods is anticipated. With capacity continuing to grow about 2.5%, these gains in industrial production no longer are of the magnitude sufficient to increase utilization substantially.

Prices - Although inflation has been well contained during the second quarter, largely as a result of declines in food prices, such favorable conditions are not expected to persist. Indeed, prices of consumer nondurables are expected to reach levels forecast in May by the middle of 1985 despite lower prices than in that forecast at the present time. Much of this gap will be closed in the latter half of 1984 when food prices are expected to rebound significantly.

Miscellaneous - The merchandise trade balances probably reached their maximum rate of deterioration in April, when a surge in petroleum imports and a $300 million gain in automobile imports at the beginning of the orderly marketing arrangement year led to exceptionally strong imports. The fundamentals that have caused trade balances to deteriorate have not yet been reversed. The dollar remains unusually strong while foreign economies are only gradually intensifying their rates of growth. For that reason, continued high merchandise trade balance deficits appear likely well into the fall of 1984. Some improvement then is anticipated, although declining currency values at that time will sharply limit the degree to which the trade balances can fall before the end of 1985.

Although the sharp decline in hours worked and in the stock market are exerting significant downward pressures upon the leading indicators, a surge in the money measure and strong rebounds in orders for plant and equipment and consumer goods should generate another modest increase in the leading indicators for May.

Financial Markets

The deterioration in bond prices during June cannot be totally the result of higher real economic activity than originally anticipated. Remember, nominal GNP was not revised upward. Thus, the demand for money should not have been significantly increased as a result of spending conditions. Nevertheless, money growth is currently excessive. Rapid increases in available reserves suggest that demand conditions are responsible for this strong growth. Apparently, the movement toward liquidity that began in May on the heels of concern about Continental Illinois continues. Although currency demand is rising, there is little evidence to suggest that this increased liquidity demand is at the expense of bank instruments. To be sure, the spread between 3-month commercial paper and 90-day CDs has widened slightly, possibly reflecting some concerns about banking institutions. However, this flight to liquidity appears to be evenly balanced among all types of short-term assets, including bank instruments.

Because the economy is growing rapidly, the Federal Reserve probably will engage in some restraint to slow the rapid growth of monetary aggregates once this unusual portfolio demand for money subsides. (Just think what would have happened to financial markets in the last two months if the Federal Reserve was following a fixed rule that could not adjust to changing portfolio needs.) As short-term interest rates already have increased significantly on the basis of this increased portfolio demand, little further increases in rates should be required when the Federal Reserve moves toward restraint. However, a continuation of Federal Reserve restraint early in 1985 could coincide once again with shifting portfolio desires. Thus, interest rates are expected to once again move up sharply at that time. Because portfolio shifts may very well be more responsible for the interest rate pressures than the transactions demand for funds, long-term interest rates should move up almost as sharply as short-term rates. Although a clear pattern of peaking interest rates cannot yet be determined, rates are expected to begin their downward trend early in the second half of 1985.

Equity Markets - Although real economic activity expanded almost 6% at annual rates in the spring, profit gains were surprisingly small. Our estimates show that wage compensation increased 9.5% at annual rates, above the 8.8% estimated expansion in nominal GNP. Interest income in the national income accounts expanded at more than a 13% annual rate. Fortunately, a decline in the inventory valuation adjustment has increased the quality of profits being generated during the quarter. Genuine profits, operating profits less tax liabilities, appear to have increased about 4%. Unfortunately, long-term interest rates increased 8%, suggesting that market values of equity ownership should have fallen about 4%. In fact, the New York composite declined 2.5% between the two quarters. Thus, the prevailing stock market weakness has definitely been justified by increases in interest rates. During the third quarter an acceleration in nominal GNP should be sufficient to meet a modest acceleration in the growth of wage income and interest income. However, an acceleration in the inventory valuation adjustment should lead to a reduction in the quality of earnings. Genuine profits should grow by no more than 3%. Although interest rates are expected to show little change during the summer months, at current levels they already average 4% higher than in the second quarter. Under such circumstances, gains in equity values should be limited. For that reason, a summer rally carrying only to 1200 on the Dow would be a reasonable investment objective. After that time, our analysis would suggest that equity values once again will be under downward pressures, reaching a low probably during the spring of 1985.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	91930	92391	110.1	110.3	103190	103190	8.0	8.0	158.3	158.4
February	92347	92846	110.4	110.9	103892	103892	7.8	7.8	158.2	158.5
March	92490	93058	109.8	110.9	104140	104140	7.8	7.8	158.7	159.1
April	92773	93456	110.4	112.1	104503	104402	7.7	7.8	159.5	159.9
May	92885	93688	110.7	111.9	104667	105288	7.6	7.5	160.1	159.6
June	92996	93854*	110.9	112.2*	104832	105065*	7.6	7.5*	160.8	160.3*
July	93127	94096	111.1	112.4	104949	105325	7.6	7.4	161.4	161.0
August	93362	94300	111.3	112.6	105172	105593	7.5	7.4	161.9	161.6
September	93598	94547	111.5	112.8	105394	105889	7.5	7.2	162.5	162.3
October	93742	94715	111.7	113.0	105547	106181	7.4	7.1	163.1	162.9
November	93865	94962	111.9	113.2	105678	106458	7.4	7.0	163.8	163.6
December	94015	95130	112.0	113.4	105839	106641	7.4	7.0	164.6	164.2
January 1985	94226	95294	112.3	113.5	106091	106852	7.4	6.9	165.2	164.9
February	94389	95462	112.5	113.7	106311	107094	7.4	6.9	166.0	165.6
March	94543	95546	112.8	113.8	106537	107234	7.3	7.0	166.8	166.3
April	94698	95795	113.0	114.0	106703	107519	7.3	6.9	167.5	167.1
May	94843	95963	113.1	114.2	106873	107726	7.2	6.9	168.3	167.9
June	95002	96128	113.3	114.3	107048	107990	7.2	6.8	169.3	168.6

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	2.902	2.907	1.748	1.749	118.9	119.4	2.483	2.488	2.364	2.368
February	2.923	2.928	1.757	1.757	152.6	158.4	2.501	2.506	2.349	2.348
March	2.949	2.944	1.764	1.763	188.4	167.3	2.526	2.521	2.337	2.354
April	2.955	2.961	1.777	1.785	157.5	145.1	2.534	2.535	2.376	2.390
May	2.965	2.979	1.785	1.794	145.8	133.4	2.539	2.549	2.393	2.415
June	2.974	3.003*	1.797	1.807*	136.1	145.1*	2.545	2.569*	2.409	2.424*
July	2.999	3.025	1.806	1.818	137.3	145.8	2.564	2.587	2.427	2.441
August	3.025	3.046	1.816	1.828	143.7	144.1	2.584	2.605	2.440	2.461
September	3.051	3.066	1.825	1.839	149.2	142.1	2.605	2.620	2.455	2.478
October	3.068	3.087	1.835	1.849	148.3	141.5	2.619	2.637	2.471	2.495
November	3.085	3.106	1.846	1.860	142.6	138.0	2.632	2.651	2.489	2.513
December	3.101	3.126	1.857	1.870	139.3	138.1	2.644	2.667	2.507	2.529
January 1985	3.122	3.146	1.871	1.885	137.1	139.2	2.664	2.683	2.527	2.544
February	3.149	3.168	1.883	1.896	143.7	144.5	2.686	2.703	2.543	2.558
March	3.174	3.190	1.898	1.906	154.5	148.5	2.708	2.722	2.555	2.573
April	3.198	3.214	1.909	1.919	156.6	152.2	2.730	2.744	2.573	2.592
May	3.217	3.236	1.919	1.931	152.7	152.8	2.745	2.762	2.592	2.609
June	3.240	3.255	1.932	1.941	154.5	152.3	2.764	2.778	2.611	2.626

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	2294.7	2299.0	322.4	322.1	850.0	852.5	1122.3	1124.4	1053.9	1056.
February	2278.6	2277.1	314.3	312.7	842.2	839.6	1122.0	1124.9	1047.2	1045.
March	2268.3	2282.5	294.2	310.7	841.0	837.4	1133.1	1134.5	1039.3	1043.
April	2305.4	2318.6	311.0	317.8	848.8	857.6	1145.6	1143.3	1052.8	1058.
May	2321.5	2343.1	312.1	331.4	854.5	861.6	1154.9	1150.1	1055.1	1068.
June	2336.9	2351.4*	313.0	327.1*	860.0	866.9*	1163.9	1157.4*	1057.2	1067.
July	2354.2	2368.0	315.6	329.8	866.0	873.7	1172.6	1164.5	1060.6	1070.
August	2366.8	2387.2	317.6	334.5	868.1	880.6	1181.1	1172.1	1061.9	1074.
September	2379.8	2403.7	319.7	336.7	870.8	887.2	1189.3	1179.8	1062.4	1077.
October	2396.3	2420.8	321.6	338.8	877.3	893.4	1197.4	1188.6	1065.8	1079.
November	2413.2	2437.8	323.4	339.7	883.2	899.8	1206.6	1198.3	1069.5	1082.
December	2429.7	2453.2	325.3	341.2	888.9	904.4	1215.5	1207.6	1071.6	1084.
January 1985	2449.0	2467.6	329.4	340.3	895.0	910.5	1224.6	1216.8	1075.5	1085.
February	2464.7	2481.7	332.1	341.4	898.5	915.6	1234.1	1224.7	1079.4	1086.
March	2476.4	2496.2	330.0	341.2	902.9	921.5	1243.5	1233.5	1079.5	1088.
April	2493.7	2513.9	332.6	343.9	908.4	927.3	1252.7	1242.7	1082.3	1091.
May	2511.6	2530.8	334.7	346.8	915.6	933.1	1261.3	1250.9	1085.5	1093.
June	2529.8	2546.9	338.4	346.9	921.5	940.4	1269.9	1259.6	1088.7	1095.

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	106.16	106.60	14.42	15.09	11.2	11.2	69.85	69.48	21.89	22.03
February	105.98	105.48	14.62	14.93	10.6	10.6	69.31	68.57	22.05	21.98
March	103.40	103.87	14.82	14.80	10.0	10.0	68.15	68.57	20.43	20.51
April	105.69	107.10	14.69	15.31	10.3	10.1	69.50	69.78	21.50	22.01
May	106.27	107.29	14.63	15.21	10.4	11.0	69.97	69.89	21.67	22.19
June	106.87	107.97*	14.60	15.27*	10.5	10.5*	70.42	70.32*	21.85	22.38*
July	107.67	108.83	14.73	15.35	10.6	10.7	70.89	70.87	22.05	22.61
August	108.06	109.93	14.81	15.40	10.6	10.9	71.05	71.43	22.20	23.10
September	108.54	110.72	14.89	15.42	10.5	11.0	71.29	71.97	22.36	23.33
October	109.36	111.46	14.96	15.50	10.6	11.0	71.86	72.47	22.54	23.49
November	110.06	112.09	15.04	15.55	10.6	10.9	72.35	72.99	22.67	23.55
December	110.76	112.63	15.12	15.61	10.6	10.9	72.81	73.36	22.80	23.66
January 1985	111.72	113.03	15.20	15.68	10.8	10.8	73.26	73.86	23.26	23.49
February	112.32	113.56	15.28	15.74	10.9	10.8	73.55	74.27	23.49	23.55
March	112.44	114.02	15.36	15.83	10.7	10.7	73.91	74.75	23.17	23.44
April	113.17	114.80	15.45	15.93	10.7	10.8	74.36	75.22	23.36	23.65
May	114.00	115.61	15.54	16.05	10.7	10.9	74.95	75.69	23.51	23.87
June	114.92	116.21	15.63	16.13	10.8	10.8	75.43	76.28	23.86	23.80

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	260.6	260.9	99.22	99.44	24.64	25.09	23.93	24.09
February	263.8	264.1	101.83	102.35	26.84	27.02	24.05	24.16
March	265.4	267.4	103.45	105.18	25.88	26.86	24.26	25.24
April	267.9	270.4	100.86	98.32	25.52	25.89	24.32	24.80
May	269.2	272.1*	101.25	101.55	25.65	28.64	24.55	25.90
June	270.6	274.3	102.67	100.96*	26.02	27.48*	24.78	26.54*
July	272.8	276.6	103.15	102.42	26.21	27.73	25.10	26.78
August	274.9	279.3	103.18	104.46	26.39	28.19	25.27	27.09
September	276.6	281.3	105.68	106.27	26.86	28.65	25.43	27.41
October	278.6	283.8	106.12	107.48	27.15	29.03	25.65	27.89
November	281.1	286.2	107.28	108.26	27.49	29.46	25.86	28.02
December	283.3	288.9	105.63	109.43	27.18	29.22	26.12	28.43
January 1985	286.1	291.2	105.49	111.42	27.26	29.83	26.41	28.76
February	288.5	293.8	106.26	112.67	27.55	30.26	26.56	29.02
March	290.4	296.0	107.15	110.83	27.65	30.36	26.79	29.18
April	292.7	298.1	109.24	113.16	27.92	30.78	26.95	29.47
May	295.6	299.9	108.55	114.05	27.86	30.97	27.15	29.73
June	298.0	302.0	109.03	115.36	27.99	31.32	27.36	30.04

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	517.8	518.8	5.64	5.72	158.1	158.5	79.9	80.1
February	527.0	527.2	5.82	5.85	159.9	160.0	80.7	80.7
March	531.1	532.9	5.95	5.73	161.1	160.8	81.2	80.9
April	536.9	540.9	6.01	5.99	161.2	162.5	81.1	81.5
May	541.2	544.2*	6.05	5.75	161.5	163.2	81.2	81.7
June	546.4	549.3	6.09	5.94*	161.8	164.2*	81.2	82.0*
July	552.7	553.9	6.27	6.07	162.2	164.7	81.3	82.1
August	557.8	559.3	6.32	6.15	162.7	165.4	81.4	82.3
September	562.1	563.6	6.38	6.27	163.3	166.0	81.5	82.4
October	567.5	569.2	6.49	6.35	163.6	166.5	81.6	82.5
November	573.2	574.0	6.63	6.45	163.9	167.0	81.6	82.6
December	578.0	579.4	6.78	6.56	164.3	167.6	81.7	82.7
January 1985	584.6	583.7	6.87	6.69	165.0	168.1	81.9	82.8
February	589.4	588.9	6.96	6.78	165.7	168.7	82.1	82.9
March	593.8	594.2	7.05	6.89	166.4	169.2	82.3	83.0
April	599.2	598.9	7.24	7.03	166.9	169.7	82.5	83.1
May	604.7	602.6	7.36	7.15	167.3	170.4	82.6	83.2
June	610.0	607.0	7.49	7.25	167.5	171.0	82.6	83.4

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	1.915	1.980	1.241	1.301	1.770	1.817	276.0	275.7	172.6	172.4
February	2.197	2.231	1.360	1.447	1.941	1.946	295.0	292.2	184.0	182.3
March	1.738	1.662	1.173	1.071	1.700	1.727	288.3	302.0	179.1	187.1
April	1.908	1.990	1.205	1.191	1.715	1.758	292.8	302.5	181.4	186.9
May	1.766	1.782	1.148	1.093	1.616	1.735	291.4	306.2*	180.2	188.8
June	1.705	1.793*	1.102	1.067*	1.586	1.694*	290.0	306.0	178.9	188.3
July	1.758	1.771	1.115	1.042	1.595	1.652	293.3	306.0	180.4	187.8
August	1.706	1.748	1.078	1.006	1.562	1.635	296.1	305.9	181.5	187.3
September	1.666	1.712	1.037	1.009	1.483	1.593	298.5	306.8	182.5	187.4
October	1.659	1.655	1.039	0.982	1.497	1.569	298.8	307.2	182.2	187.1
November	1.675	1.638	1.045	0.976	1.516	1.544	299.0	307.5	182.0	186.7
December	1.669	1.601	1.043	0.955	1.522	1.527	299.4	307.5	181.8	186.2
January 1985	1.666	1.605	1.026	0.937	1.516	1.508	301.6	307.5	182.3	185.8
February	1.649	1.568	1.001	0.904	1.486	1.476	303.9	308.2	182.9	185.7
March	1.632	1.547	0.977	0.889	1.485	1.432	306.3	308.5	183.4	185.2
April	1.622	1.508	0.992	0.882	1.467	1.403	307.4	309.4	183.4	185.0
May	1.589	1.487	0.969	0.865	1.426	1.392	308.5	309.0	183.3	183.9
June	1.578	1.469	0.953	0.868	1.417	1.384	309.8	309.0	183.2	183.1

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	108.3	108.1	50.7	50.7	117.0	116.9
February	114.3	110.9	52.2	52.8	128.5	128.5
March	111.6	113.5	51.5	55.2	125.2	133.3
April	113.2	116.2	53.0	54.3	12636	131.9
May	113.5	117.8*	53.4	55.8*	124.5	132.6*
June	113.7	118.3	53.9	56.1	122.4	131.6
July	115.8	119.0	54.7	56.5	122.8	130.5
August	117.7	119.8	55.5	56.9	122.9	129.2
September	119.7	120.5	56.3	57.6	122.5	128.7
October	120.6	121.2	56.6	58.0	121.6	128.0
November	121.4	122.6	56.9	58.5	120.7	126.4
December	122.3	123.8	57.2	58.9	119.9	124.8
January 1985	123.8	125.2	57.5	59.2	120.3	123.1
February	125.3	126.5	57.8	59.5	120.8	122.2
March	126.7	127.8	58.0	59.8	121.6	120.9
April	127.9	129.2	58.6	60.2	120.9	120.0
May	129.0	130.4	59.1	60.5	120.3	118.1
June	130.1	131.6	59.7	60.9	120.0	116.5

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	305.8	305.8	289.1	289.1	319.2	319.1	220.87	220.52
February	306.9	306.9	290.2	290.2	320.4	320.4	220.24	220.23
March	307.4	307.6	291.5	291.6	321.9	321.9	221.08	221.06
April	308.6	309.1	292.3	291.7	322.9	322.5	222.23	221.53
May	309.9	309.7	293.1	291.6	324.0	323.3	223.29	221.86
June	311.2	310.6*	294.0	292.3*	325.1	323.6*	224.35	222.82
July	312.7	312.0	295.7	293.5	326.5	324.2	225.33	223.86
August	314.2	313.3	297.3	295.0	327.9	325.2	226.19	224.81
September	315.6	314.8	299.0	296.5	329.2	326.5	227.23	225.74
October	317.1	316.2	300.4	297.7	331.3	328.6	228.14	226.75
November	318.7	317.6	301.7	298.9	332.4	329.8	228.95	227.79
December	320.3	319.1	303.0	300.4	333.6	331.1	230.03	228.87
January 1985	321.7	320.7	304.5	301.5	335.0	332.8	231.53	230.34
February	323.1	322.0	306.0	302.7	336.4	334.1	232.21	231.27
March	324.6	323.5	307.5	304.2	338.1	335.4	233.28	232.39
April	325.9	324.9	308.6	305.4	339.3	336.7	234.38	233.38
May	327.2	326.2	309.7	306.9	340.4	338.0	235.40	234.51
June	328.5	327.9	310.9	308.5	341.5	339.5	236.45	235.71

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	217.7	217.7	181.6	181.2	218.0	217.9	230.7	230.8	159.9	159.9
February	217.6	217.9	180.5	181.1	217.2	217.1	231.2	231.6	160.3	160.3
March	218.3	218.7	179.4	180.9	217.6	218.1	231.8	232.5	161.0	161.4
April	219.0	219.0	180.9	181.1	218.1	217.8	233.0	233.6	161.4	161.9
May	220.0	219.2*	181.6	181.5*	218.9	217.6*	234.3	234.6*	161.7	162.2*
June	221.0	220.2	182.2	182.2	219.7	218.3	235.6	235.7	162.1	162.5
July	222.0	221.3	182.7	183.0	220.9	219.3	236.5	236.9	162.6	162.9
August	222.9	222.2	183.2	183.5	222.0	220.4	237.4	238.0	163.1	163.3
September	224.0	223.2	183.8	184.2	223.3	221.3	238.6	239.1	163.6	163.7
October	224.8	224.2	184.4	184.8	223.9	222.3	239.7	240.3	164.0	164.2
November	225.6	225.2	185.0	185.3	224.5	223.4	240.7	241.4	164.3	164.7
December	226.7	226.3	185.6	186.1	225.2	224.4	241.8	242.6	164.7	165.1
January 1985	227.7	227.4	186.3	186.8	226.0	225.4	242.9	243.8	165.4	165.5
February	228.3	228.3	187.0	187.4	226.9	226.3	244.0	244.9	166.2	166.0
March	229.4	229.4	187.7	188.0	227.8	227.5	245.1	246.0	167.0	166.6
April	230.4	230.4	188.3	188.5	228.8	228.5	246.3	247.1	167.6	167.3
May	231.4	231.4	188.8	189.3	229.7	229.5	247.5	248.3	168.3	168.0
June	232.4	232.6	189.4	190.0	230.6	230.7	248.8	249.5	169.1	168.7

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	-8.26	-8.26	164.7	165.0	3531	3532	1599	1602	11.7	15.2
February	-8.93	-8.93	165.9	167.1	3549	3575	1611	1610	8.6	10.0
March	-9.10	-9.05	165.0	166.9	3544	3573	1603	1616	12.4	15.8
April	-8.96	-10.92	165.3	167.8	3583	3604	1612	1627	13.9	7.9
May	-8.86	-10.43*	166.0	168.4*	3601	3623	1613	1633	15.7	9.3
June	-8.75	-9.96	167.1	169.0	3618	3650	1613	1638	17.5	12.4
July	-8.89	-9.93	167.8	169.3	3651	3678	1620	1643	19.6	15.6
August	-9.21	-10.41	168.5	169.0	3673	3708	1624	1649	20.5	18.3
September	-9.53	-10.26	169.2	169.4	3702	3742	1629	1658	21.4	16.5
October	-9.40	-9.85	169.0	169.7	3726	3765	1633	1660	21.7	16.2
November	-9.45	-9.62	168.7	169.6	3747	3789	1637	1663	21.4	18.9
December	-9.48	-9.77	169.2	170.1	3774	3816	1641	1667	20.2	15.6
January 1985	-9.46	-9.68	169.8	170.6	3813	3849	1647	1671	19.9	19.4
February	-9.41	-9.63	170.3	171.1	3837	3874	1652	1675	19.5	19.1
March	-9.36	-9.75	170.7	171.5	3866	3905	1657	1680	19.1	18.6
April	-9.53	-9.92	170.5	171.9	3894	3934	1661	1686	18.3	19.0
May	-9.62	-9.84	171.1	170.9	3920	3958	1665	1688	18.0	19.7
June	-9.70	-9.67	171.5	171.6	3950	3986	1671	1691	18.2	20.3

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	204.1	204.1	530.0	530.0	2206.1	2206.8	9.56	9.56	9.01	9.02
February	205.2	205.2	532.9	532.9	2222.1	2222.5	9.59	9.59	9.18	9.18
March	207.8	207.5	535.2	535.2	2228.5	2229.9	9.91	9.91	9.66	9.66
April	209.0	208.5	535.0	535.3	2241.6	2242.2	10.42	10.29	9.73	9.84
May	210.1	209.8	539.3	541.1	2253.9	2259.4	10.61	10.32	9.78	10.31
June	211.2	212.2*	543.6	547.2*	2268.0	2279.5*	10.56	11.27*	9.82	10.69
July	212.4	213.3	546.3	550.7	2286.1	2299.8	10.62	11.17	9.85	10.76
August	213.6	214.4	549.6	554.9	2306.7	2323.1	10.59	11.43	9.83	10.93
September	214.8	215.6	552.9	558.6	2325.8	2343.2	10.77	11.52	10.11	10.98
October	215.9	216.5	555.7	561.2	2340.6	2361.2	10.85	11.46	10.21	10.75
November	217.0	217.6	558.6	564.5	2359.9	2380.9	11.07	11.78	10.29	11.15
December	218.1	218.3	562.1	566.9	2368.7	2398.2	11.17	12.06	10.33	11.28
January 1985	219.4	219.5	565.4	570.5	2390.5	2420.6	11.05	12.21	10.15	11.43
February	220.7	220.8	569.0	573.0	2414.5	2438.5	11.09	12.38	9.97	11.60
March	222.0	221.9	572.3	575.6	2439.7	2455.7	11.14	12.48	10.09	11.67
April	223.2	223.0	575.6	577.6	2459.2	2471.6	11.35	12.69	10.19	11.75
May	224.4	224.2	579.0	580.9	2470.9	2491.9	11.43	12.73	10.25	11.73
June	225.6	225.3	582.1	584.0	2482.5	2512.6	11.66	12.68	10.40	11.64

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
January 1984	12.20	12.20	9.58	9.68	9.20	9.20	9.42	9.42	11.00	11.00
February	12.08	12.08	9.04	9.64	9.32	9.32	9.54	9.54	11.00	11.00
March	12.57	12.57	9.41	9.94	9.82	9.83	10.08	10.08	11.21	11.21
April	12.65	12.81	9.49	10.19	10.26	10.18	10.46	10.41	12.00	11.93
May	12.73	13.28	9.57	10.63	10.33	10.65	10.55	11.11	12.00	12.39
June	12.80	13.67*	9.66	10.67*	10.35	11.12*	10.58	11.54*	12.00	12.50*
July	13.09	13.75	9.95	10.68	10.43	11.21	10.63	11.87	12.00	12.96
August	13.22	13.84	10.11	10.80	10.58	11.38	10.70	11.92	12.00	13.00
September	12.84	13.72	9.76	10.63	10.75	11.55	10.89	12.04	12.48	13.00
October	13.03	13.67	9.97	10.53	10.92	11.67	11.04	12.11	12.50	13.00
November	13.20	13.79	10.16	10.73	11.12	11.76	11.26	12.20	12.50	13.27
December	13.04	14.03	10.02	11.00	11.20	12.05	11.38	12.43	12.62	13.50
January 1985	12.88	14.17	9.85	11.12	11.08	12.19	11.29	12.56	13.00	13.68
February	12.96	14.29	9.97	11.29	11.02	12.33	11.24	12.73	13.00	14.00
March	13.04	14.46	10.07	11.45	11.05	12.56	11.32	12.89	13.00	14.00
April	13.20	14.57	10.23	11.58	11.26	12.75	11.56	13.07	13.00	14.23
May	13.26	14.55	10.34	11.50	11.38	12.68	11.69	13.15	13.00	14.50
June	13.36	14.61	10.49	11.52	11.49	12.62	11.74	13.10	13.27	14.50

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9/28/84 U1880-3 A

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404/658-3282

MONTHLY PROJECTIONS
JULY 1984

Dr. Donald Ratajczak, Director
For Release: August 17, 1984

GROWTH GRADUALLY SLOWING AS CONSUMPTION BEGINS SLIPPING BELOW PRODUCTION

Consumers have decided to rest following a year of aggressive purchases. Several consumer sectors obviously could not sustain their rates of gain. In the four quarters ending this spring, real apparel sales had increased 14.5%. Food purchases, aided by significant increases in takeout food patrons, showed a second quarter spurt of 8% at annual rates after adjustment for inflation. Even gasoline sales were up more than 4% from the previous year despite further improvement in the mileage performance of the existing auto fleets. Because of very modest price changes (the Consumer Price Index increased only 3.7% in the second quarter), consumers were able to maintain this spending without substantially dipping into their savings. While the savings rate fell from 6.1% in the first quarter to 6.0% in the spring, a reduction in farm income following the disbursement of PIK subsidies probably was responsible. Indeed, the consumer remains capable of sustaining a strong spending path. However, some consumer needs probably have been satiated. While this may not be the case for automobiles, a 47-day supply of inventory apparently is too lean to provide the variety necessary to meet consumer needs. As a result, sales may be deferred until the next model year. In furniture and appliances, a gradual decline in housing activity is beginning to place some strains upon their sales (new home buyers or purchasers of existing homes from other owners usually purchase more furniture about six months after the housing activity than at any other time). Unless prices intensify sharply, reasonably robust consumer support for the economy should reappear in the fall.

Producers, however, are not waiting for the fall to provide for consumer needs. Much of the production activity is concentrated in business equipment and defense equipment, as the industrial production index for July showed increases of 1.2% and 1.3% respectively in those categories. Further strong increases are anticipated in those sectors for the remainder of 1984. However, production of consumer goods expanded by 0.6% in July despite evidence that consumer outlays after adjustment for inflation showed little expansion for the second consecutive month. These inventories of consumer goods have not yet reached distribution channels, as business inventories showed only a negligible increase in June. Manufacturing inventories were up 1% but inventories at the wholesale and retail levels were down. However, the inventory figures are being unduly influenced by the reduction of automobile inventories. Excluding that one sector, a modest inventory problem may begin to develop. This will have virtually no effect upon third quarter rates of economic growth, but it could have some impact upon fourth quarter activity.

If a modest inventory overhang does develop in the fourth quarter and strike disruptions reduce production in the automobile industry by 50% for six weeks and in the coal industry by 40% for six weeks, as our most recent forecast anticipates, economic activity could slow sharply during the fall. Of course, such supply disruptions would not provide as much relief in the credit markets as an actual reduction in desired spending. Also, a modest rebound in activity should be anticipated following termination of the strike disruptions. Indeed, no evidence of recession-inducing excesses appear on the horizon at the present time, with the possible exception of rental properties. In July, for example, rental units constituted 44% of the additions to the housing stock. Yet, households continued to favor single-family units by nearly a 2-1 ratio. At some point, this current mix of rental construction will be inappropriate for the housing tastes of the American household.

Although many people have wondered whether a sharp break in commodity prices during July constituted the beginning of deflationary pressures, most of the price indices are beginning to reaccelerate following a Spring of minimal growth. As expected, meat prices began firming significantly in July and should rise further throughout the summer. More significantly, wages are beginning to accelerate in the service sector of the economy. This will soon impart price pressures upon the service sectors, with the possible exception of housing. Moreover, the collapse of construction prices that developed in the Spring and reached a climax in July appears to be over. No rapid price recovery is anticipated, but materials in construction are now expected to gradually rise in price for the remainder of this year. In short, claims of deflation have arrived just as the normal cyclical intensifying price pressures also have begun to develop. The July collapse in commodity markets appears to be related to an unanticipated surge in the value of the dollar at that time. Evidence that the dollar is beginning to struggle at these rarefied values relative to some important trading partners already is beginning to reverse some of those especially weak commodity prices. Unfortunately, the deflationary claims have little validity.

Of course, the double-digit watchers also have no justifiable basis for their projections. Wages are beginning to intensify, but the hourly earnings index is only growing at an annual rate of 5% in recent months. Productivity gains continue to develop at a 3% annual rate even as the economic recovery matures into expansion. Slower productivity gains should be anticipated ahead even as wage pressures begin to increase. However, substantial foreign competition will prevent all these increased costs from being converted into increased prices. Profit margins will be under downward pressures. Only an unanticipated surge in wage demands or a total collapse of productivity gains could even approach the inflation estimates of some monetary economists.

The surprising upsurge in equity values this summer really was not out of line with our estimates of equity values once the surprising rally in the bond market was taken into account. Between May and early August bond prices increased by almost 12%. No change in the outlook for earnings would be sufficient to justify the magnitude of this summer's rally. At the same time, only a movement to the vicinity of 1200 is justified by current events. Moreover, if interest rates begin climbing again, price weakness on the stock market from this point could be anticipated. Therefore, the relevant issues are: What will be happening to corporate profits in the quarters ahead; and what are the prospects for interest rates in the months ahead?

Corporate profits are expected to rise modestly, but a slowing in the growth of economic activity along with an acceleration in wage costs will limit the degree to which profits can expand. Indeed, operating profits in the second quarter increased only in line with the growth of nominal GNP despite real economic activity that was growing almost twice normal. Usually, such a rapid growth in economic activity would lead to profit growth two to three times as rapid as income growth. Moreover, any acceleration in interest rates would further increase financing costs relative to income. In the second quarter interest payments grew 1.5 times as rapidly as income in the corporate sector. Therefore, the prospects for profit growth ahead are not very strong. If a recession does not develop, as we currently believe, sufficient profit growth should be available to justify a slight increase in equity values at current interest rates.

However, it appears that interest rates will be trending upward in the fall following a summer of substantial improvement. The source of the interest rate improvement during the summer appears to be more closely related to a temporary flattening in borrowings by the corporate sector than to a dramatic shift in inflationary expectations. As cost pressures intensify during the fall and investment programs remain robust, corporate borrowings once again are expected to increase. At that point, rise in corporate borrowings should coincide with modestly increasing government borrowing and a household sector that once again will be reducing its rate of savings following a summer of savings advances. Thus, conditions will reappear to exert upward pressures upon interest rates into the spring of 1985. Short-term interest rates are still expected to rise by more than 1.5 percentage points from current levels and long-term interest rates should challenge the cyclical highs that they reached in May. On the other hand, it appears that the unusually dramatic growth in loan demand early in 1984 was the result of unusual shifts in timing of inventory and fixed investment decisions during this cycle. As a result, the interest rate peak has already been reached and the natural increase in interest rates that normally develops as a cycle matures will only bring long term rates back to those highs established during the Spring.

Quarterly Profile of GNP

	1984-II	1984-III	1984-IV	1985-I	1985-II	1985-III
Real	7.5	5.8	2.3	2.4	2.8	3.0
Price	3.2	3.8	5.5	5.5	5.3	5.3
Nominal	10.9	9.8	8.0	8.8	8.4	8.5

Monthly Statistical Highlights
for July 1984

Personal Income +0.8%; Savings Rate 6.4%; Personal Consumption +0.4%; Construction expenditures +0.2%; Business inventories +0.9%; Orders for durable goods +1.3%; Orders for nondefense capital goods +3.5%; CPI +0.4%; Consumption deflator +0.2%; Leading Indicators -0.2%; Real GNP +6.7%;

Monthly Statistical Highlights
for August 1984

Payroll employment +170,000; Index of Hours Worked +0.3%; Household employment +225,000; Civilian Unemployment Rate 7.3%; Personal Income +0.8%; Savings Rate 6.4%; Personal Consumption +0.8%; Retail Sales +0.7%; Auto Sales 10.5 million; Housing starts -3.7%; Housing Permits -1.2%; Construction expenditures -0.3%; Business inventories +0.9%; Orders for durable goods +1.7%; Orders for nondefense capital goods +0.6%; Industrial production +0.5%; CPI +0.3%; PPI +0.2%; Consumption deflator +0.4%; Leading Indicators +0.5%; Real GNP 4.4%; M1 5.9%; M2 8.8%.

Commentary

Despite a significant increase in the unemployment rate, payroll employment showed substantial growth in July. The index of hours worked increased 0.3% following a 0.6% gain in June. In the last few months, household unemployment measures fell sharply while insured unemployment rates declined very modestly. Apparently, the July survey re-established a reasonable relationship between these two series of unemployment. In effect, the unemployment rate should not have dropped in June, although the rebound in July probably also was slightly overstated. Of greater significance than the unemployment rate was the acceleration in the hourly earnings index to an annual rate of 6% as a result of significant wage gains in the finance and service sectors. While this surge may only be a one-month rebound, the acceleration in wage gains in the service sector appears to be based upon a tightening of labor market conditions in that area. The insured unemployment rate nationwide now stands at 2.6%. A rate of approximately 1.5% has proved to be in the vicinity of full employment during past labor market cycles.

Since April, employers have been substituting people for hours. Thus, the growth in labor input has not been as dramatic as the growth in employment. This explains why the productivity gains appear to be surprisingly strong for the second quarter of 1984. Indeed, unit labor costs in the private economy increased less than 1% in the second quarter. With wage compensation accelerating toward 6% in the third quarter and productivity probably slowing to less than second quarter rates, unit labor costs probably will be growing nearly 4% at annual rates during the summer months.

Personal Income and Outlays - Personal income is receiving strong support from wage gains, where the hourly earnings are beginning to accelerate, and from property income. The decline in interest rates has had only a marginal impact upon these interest earnings, which are largely based upon short-term interest rates. Nevertheless, even short-term rates no longer are rising sharply. For that reason, earnings from property income will not be growing more rapidly than personal income during the summer months. This normally would cause a slowing in the growth of personal income. Moreover, declining farm prices should have some adverse impact upon farm earnings. Nevertheless, accelerating wage costs probably will offset these diminishing forces, at least until the fourth quarter.

Outlays definitely have slowed sharply in June and July following a surge in earlier months. Appliances showed an unsustainable rate of increase in June, which led to a significant decline in that nonauto component of retail sales during July. Automobiles are showing some sales weakness as a result of automobile availability. These sales should rebound late in August when more cars begin to flow from the assembly plants that had been closed for remodeling of downsize intermediate cars. Unfortunately, a strike is anticipated after the contracts expire on September 14. This will have an impact upon production and consumption in September and October. Weakness in nondurable sales is related to significant declines in clothing purchases during July and continuing declines in gasoline prices. Both of these weaknesses are expected to be temporary. On the other hand, food prices are beginning to rise. This increased inflation for nondurable goods will begin to dominate consumption for that sector in the months ahead.

Construction - Housing continues to show downward movement as a result of weakness in the single-family starts. Although interest rates probably began declining for fixed mortgages by July, investor wariness in purchasing currently available adjustable rate mortgages has narrowed the gap in effective interest rates between that instrument and the fixed mortgage. Indeed, effective mortgage rates probably are rising at the present time even as fixed rates are declining. This should not continue for too much longer. As a result, stability is expected in single-family activity after the next few months. On the other hand, multi-family activity continues to be at apparently unsustainable rates. In July, single-family starts were only 55% of total housing starts, even though nearly two-thirds of all households eventually occupy single-family units. The problem is not a shortage of single-family starts, but a developing plethora of multi-family units.

Permits finally started to decline significantly relative to starts. The more normal 200,000 unit gap between the starts and permit figures reappeared in July. Permits are not expected to fall dramatically further, but some weakness in multi-family units probably will be reflected in reduced permit activity in 1985.

Construction for private nonresidential activity slowed in June following an unsustainable surge in earlier months. More moderate rates of expansion now are expected in that category for the remainder of the year. Similarly, a surge in miscellaneous public buildings led to stronger public construction performance in June than had been anticipated. As highways are expected to continue contributing to public construction, more modest rates of expansion should develop for public construction in the months ahead. At the same time, residential construction should continue the downward direction that resumed in June. Overall construction activity is expected to show little movement through the fall before rising on a seasonally adjusted basis in the early part of 1985. One of the favorable factors stimulating nonresidential construction has been the decline in construction costs. Apparently, some projects have been accelerated because costs are currently more favorable than they are expected to be in the future. In June, the construction cost index dropped a full percentage point. Further declines of that magnitude are unlikely, although wood products continued to show price weakness through July.

Business Activity - Business inventories showed no growth in June as wholesale and retail inventories contracted even as manufacturing inventories expanded by 1%. To be sure, the distributors had excess inventory that needed to be trimmed. However, the flattening of business inventories in June is at odds with the acceleration in industrial production and the deceleration in consumer spending. An upward revision in the inventory figures, therefore, may materialize. Of course, auto inventories are being depleted, and this sector may be exerting undue influence upon the total movement of business inventories at the present time.

Shipments of nondefense capital goods boomed in June even as orders fell. Certainly, shipments cannot continue to grow as rapidly in the summer months as they did in the spring. Orders also are expected to grow more slowly, although a significant rebound from the June slowing is expected in July.

Industrial production in July continued to be led by strong increases in the defense and business equipment areas. These areas expanded 1.3% and 1.2% respectively. Materials showed a 1.1% gain while consumer activity expanded 0.6% with the aid of autos being assembled at 7.9 million units. Acceleration in auto assembly should occur in August, while the other sectors should continue to show similar rates of gain to those registered in July. For that reason, another significant expansion in industrial production is anticipated in that month. Of course, assumptions about automobile and coal mine strikes will have adverse influence upon industrial production during the Fall.

Prices - So far, inflation has been confined to services and the food sector in July. Energy continues to exert downward pressures upon the inflation rate. However, the value of the dollar may have reached a peak in August. If so, further downward pressures upon energy prices will be more difficult to develop. Also, other commodity prices probably will no longer be declining. Thus, some gradual but noticeable acceleration in the commodity components of the price indices should begin developing in the next few months. In the meantime, the GNP deflator, consistent with quarterly estimates of that statistic, is not consistent with the monthly movement of prices in June. Probably, the GNP estimates failed to recognize the sharp decline in construction prices during June. Thus, the GNP deflator may be revised downward for the second quarter as a result of a significant downward revision in the June deflator. This could exert a downward influence upon price changes for the third quarter as well, although the revision would have little impact upon price movements beyond that time.

Miscellaneous - It now appears that the leading indicators will fall for a second consecutive month in July. Contributing to the decline are unemployment claims, vendors performance, sensitive prices, stock prices, and construction permits. Orders are expected to rebound while the money stock and workweeks are showing little change. Certainly, two consecutive measures of weakness cannot be totally ignored. However, the sensitive prices appear to be too heavily dependent upon prices of wood products. As a result, it is really capturing the movement of construction prices at the present time, which indeed are falling quite sharply. Moreover, the stock market rallied dramatically in August. Thus, the leading indicators probably will not show a third consecutive monthly decline.

Trade balances have been surprisingly lower than expected in recent months as a result of a reduced flow of goods from Great Britain and West Germany.

These reduced flows reflect the impact of strike activity in those countries and are not expected to be indicative of a more substantial long-term trend. Thus, the trade balances should once again deteriorate when these trade flows no longer are being impacted by strikes.

Financial Markets

A substantial slowing of money growth in July appears to be related to a significant slowing in short-term credit demand during that months. Apparently, the Federal Reserve continues to pursue a federal funds target. As a result, this reduced demand for money led to a reduced quantity of money. The Federal Reserve now can pursue a lower federal funds target and remain consistent with its money growth targets, at least until short-term credit demand reappears. This should develop late in the third quarter. Unfortunately, concerns about the banking community's health continue to reappear on the short-term markets. This has the effect of widening the gap between commercial paper and CD rates. If the Federal Reserve persists in the current federal funds target, which appears to be between 11.0 and 11.75%, this widening gap between commercial paper and CDs may force an increase in the prime rate by the fall. However, politics dictate that no movement occur prior to the November Presidential election. Despite no significant change in short-term interest rates, the moderation in money demand appears to have encouraged a substantial rally in the bond market. Indeed, interest rates may have reached their highs for this cycle late in May. However, those highs will be tested several times early in 1985 as corporate credit demand reintensifies.

In fact, several factors appear to have contributed to the bond market rally during the summer. First, corporations moderated their inventory investments early in the quarter. At the same time, they appear to have marginally improved their cash flow. Fixed investment also may have been growing at a slightly reduced rate in the summer as compared to the spring. All of these forces led to little change in commercial loans during the summer months. However, inventories should be built up after the strike activity has ended in the fall. Fixed investment is expected to remain strong while corporate cash flows are expected to be impacted by accelerating wage costs. Thus, commercial loans should once again begin rising by the latter part of the fall. The household sector sharply increased its savings rates early in the summer even as mortgage borrowings started to diminish. Although households sharply increased their borrowings for nonmortgage purposes, the net effect of the household sector was to increase its contributions to the credit markets. Moreover, a shift in foreign investor attractiveness to American financial assets, partially as a result of repealing the 30% withholding rate, temporarily increased foreign purchases of American financial assets. With the corporate, household, and foreign sectors all increasing their net contributions to our credit markets, interest rates had to fall. The issue is whether this swing in net savings by sector can persist.

Although the household sector could continue to increase net savings until automobiles become available following a probable strike, it is more likely that savings rates are peaking for this year. At any rate, less household support for credit markets than currently exists will develop before year-end. Corporations almost certainly will reintensify their inventory holdings late in the year and continue to borrow heavily in the early months of 1985. If the shift in foreign investor sentiment was caused by a change in regulation, this effect will exert no additional favorable influence following the increased attractiveness registered during the summer. Thus, interest rates are expected to resume their upward path late in 1984 and early in 1985. However, the magnitude of the increase in interest rates is not expected to be dramatic.

Equity Markets - Although the rally in the bond market was not anticipated, the rally in equity values directly followed from the 12% decline in interest rates from their May peaks. Operating profits are expected to continue rising through 1985, but the speed of profit advance should fall slightly short of the growth in GNP. Normally, such a growth in profits is not sufficient to increase equity values. According to our interest rate outlook, the value of that earnings stream will be increasingly discounted again in the fall and winter months. Therefore, stock market values should not rise significantly from current levels. On the other hand, the summer rally was appropriate and no significant decline from current levels now appears likely. As some analysts have argued, the market responded to changes in interest rates and is receiving its direction from the bond market. This is a far cry from conditions in 1982 when the bond market rally was more sustained because of cyclical developments while operating profits were expected to rise dramatically. Certainly, claims that the stock market will exceed 1300 before the end of this year on a path toward 1500 by the middle of 1985 must be appropriately discounted.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Index	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	92347	92846	110.4	110.9	103892	103892	7.8	7.8	158.2	158.5
March	92490	93058	109.8	110.9	104140	104140	7.8	7.8	158.7	159.1
April	92773	93449	110.4	112.0	104503	104402	7.7	7.8	159.5	159.9
May	92885	93768	110.7	112.0	104667	105288	7.6	7.5	160.1	159.6
June	92996	94076	110.9	112.6	104832	105748	7.6	7.1	160.8	160.3
July	93127	94378	111.1	112.9	104949	105395	7.6	7.5	161.4	161.1
August	93362	94548*	111.3	113.2*	105172	105620*	7.5	7.3*	161.9	162.0*
September	93598	94753	111.5	113.4	105394	105721	7.5	7.2	162.5	162.9
October	93742	94970	111.7	113.6	105547	106018	7.4	7.0	163.1	163.7
November	93865	95171	111.9	113.8	105678	106288	7.4	6.8	163.8	164.5
December	94015	95368	112.0	114.0	105839	106580	7.4	6.7	164.6	165.4
January 1985	94226	95535	112.3	114.2	106091	106799	7.4	6.7	165.2	166.0
February	94389	95699	112.5	114.3	106311	107002	7.4	6.6	166.0	166.8
March	94543	95896	112.8	114.5	106537	107302	7.3	6.5	166.8	167.7
April	94698	96064	113.0	114.7	106703	107409	7.3	6.5	167.5	168.5
May	94843	96228	113.1	114.8	106873	107633	7.2	6.5	168.3	169.3
June	95002	96312	113.3	114.9	107048	107700	7.2	6.6	169.3	170.2
July	95176	96477	113.5	115.0	107219	108007	7.1	6.6	170.1	171.1

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	2.923	2.924	1.757	1.755	152.6	163.6	2.501	2.505	2.349	2.341
March	2.949	2.941	1.764	1.765	188.4	172.4	2.526	2.520	2.337	2.347
April	2.955	2.969	1.777	1.785	157.5	162.3	2.534	2.545	2.376	2.383
May	2.965	2.981	1.785	1.789	145.8	142.9	2.539	2.554	2.393	2.411
June	2.974	3.005	1.797	1.802	136.1	156.8	2.545	2.573	2.409	2.417
July	2.999	3.029*	1.806	1.816*	137.3	166.4*	2.564	2.594*	2.427	2.428*
August	3.025	3.053	1.816	1.831	143.7	167.8	2.584	2.614	2.440	2.446
September	3.051	3.074	1.825	1.844	149.2	170.0	2.605	2.632	2.455	2.462
October	3.068	3.094	1.835	1.857	148.3	166.0	2.619	2.647	2.471	2.481
November	3.085	3.112	1.846	1.869	142.6	158.9	2.632	2.661	2.489	2.502
December	3.101	3.136	1.857	1.886	139.3	159.7	2.644	2.680	2.507	2.520
January 1985	3.122	3.152	1.871	1.897	137.1	160.2	2.664	2.694	2.527	2.534
February	3.149	3.171	1.883	1.907	143.7	161.4	2.686	2.709	2.543	2.548
March	3.174	3.195	1.898	1.921	154.5	165.7	2.708	2.731	2.555	2.565
April	3.198	3.218	1.909	1.934	156.6	168.4	2.730	2.750	2.573	2.582
May	3.217	3.238	1.919	1.944	152.7	164.4	2.745	2.767	2.592	2.603
June	3.240	3.260	1.932	1.957	154.5	166.3	2.764	2.785	2.611	2.619
July	3.262	3.282	1.943	1.969	149.9	165.5	2.782	2.803	2.632	2.638

Fore. = May Forecast

C.E. = Current Expectations

* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	2278.6	2267.6	314.3	308.8	842.2	837.6	1122.0	1121.2	1047.2	1040.4
March	2268.3	2273.2	294.2	306.4	841.0	835.6	1133.1	1131.3	1039.3	1039.1
April	2305.4	2307.7	311.0	309.7	848.8	855.3	1145.6	1142.7	1052.8	1053.2
May	2321.5	2334.0	312.1	324.0	854.5	859.8	1154.9	1150.2	1055.1	1065.4
June	2336.9	2338.4	313.0	322.5	860.0	858.3	1163.9	1157.6	1057.2	1066.5*
July	2354.2	2348.4*	315.6	322.0*	866.0	861.0*	1172.6	1165.4*	1060.6	1069.0
August	2366.8	2366.1	317.6	324.9	868.1	865.4	1181.1	1175.8	1061.9	1073.1
September	2379.8	2381.0	319.7	328.5	870.8	869.3	1189.3	1183.2	1062.4	1075.8
October	2396.3	2399.1	321.6	329.4	877.3	877.7	1197.4	1192.0	1065.8	1079.2
November	2413.2	2419.3	323.4	335.4	883.2	883.2	1206.6	1200.7	1069.5	1083.5
December	2429.7	2436.7	325.3	340.7	888.9	886.1	1215.5	1209.9	1071.6	1086.9
January 1985	2449.0	2449.6	329.4	340.2	895.0	891.1	1224.6	1218.3	1075.5	1087.8
February	2464.7	2462.6	332.1	339.8	898.5	895.9	1234.1	1226.9	1079.4	1088.9
March	2476.4	2479.6	330.0	342.2	902.9	901.0	1243.5	1236.4	1079.5	1091.9
April	2493.7	2495.2	332.6	342.9	908.4	906.5	1252.7	1245.8	1082.3	1093.9
May	2511.6	2515.6	334.7	347.0	915.6	914.0	1261.3	1254.6	1085.5	1098.4
June	2529.8	2530.9	338.4	346.4	921.5	920.6	1269.9	1263.9	1088.7	1099.9
July	2550.3	2548.0	341.9	348.2	928.6	927.1	1279.8	1272.7	1092.6	1102.6

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	105.98	105.48	14.62	14.93	10.6	10.6	69.31	68.57	22.05	21.98
March	103.40	103.87	14.82	14.80	10.0	10.0	68.15	68.57	20.43	20.51
April	105.69	107.51	14.69	15.37	10.3	10.1	69.50	70.07	21.50	22.07
May	106.27	108.24	14.63	15.49	10.4	11.0	69.97	70.33	21.67	22.42
June	106.87	108.78	14.60	15.50	10.5	11.0	70.42	70.42	21.85	22.86
July	107.67	107.81*	14.73	15.44*	10.6	10.6	70.89	69.99*	22.05	22.37*
August	108.06	108.52	14.81	15.62	10.6	10.5*	71.05	70.48	22.20	22.42
September	108.54	109.86	14.89	15.75	10.5	10.8	71.29	71.10	22.36	23.01
October	109.36	110.75	14.96	15.93	10.6	10.6	71.86	71.89	22.54	22.93
November	110.06	112.02	15.04	16.11	10.6	10.8	72.35	72.44	22.67	23.47
December	110.76	112.98	15.12	16.28	10.6	11.1	72.81	72.68	22.80	24.02
January 1985	111.72	113.33	15.20	16.35	10.8	11.0	73.26	73.09	23.26	23.89
February	112.32	113.67	15.28	16.47	10.9	10.9	73.55	73.48	23.49	23.72
March	112.44	114.38	15.36	16.53	10.7	10.9	73.91	73.90	23.17	23.95
April	113.17	114.91	15.45	16.69	10.7	10.8	74.36	74.35	23.36	23.87
May	114.00	116.02	15.54	16.72	10.7	11.0	74.95	74.97	23.51	24.33
June	114.92	116.49	15.63	16.84	10.8	10.9	75.43	75.51	23.86	24.14
July	115.89	117.23	15.75	16.90	10.9	10.9	76.01	76.04	24.13	24.29

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	263.8	264.1	101.83	102.35	26.84	27.02	24.05	24.16
March	265.4	267.4	103.45	105.18	25.88	26.86	24.26	25.24
April	267.9	270.4	100.86	98.32	25.52	25.89	24.32	24.80
May	269.2	274.6	101.25	102.26	25.65	28.96	24.55	25.89
June	270.6	277.3	102.67	99.83	26.02	28.08	24.78	27.04
July	272.8	279.8*	103.15	101.13*	26.21	29.06*	25.10	27.48*
August	274.9	282.1	103.18	102.84	26.39	29.23	25.27	27.62
September	276.6	284.5	105.68	103.63	26.86	29.08	25.43	27.83
October	278.6	286.3	106.12	101.92	27.15	29.40	25.65	28.01
November	281.1	288.5	107.28	103.07	27.49	29.73	25.86	28.23
December	283.3	291.7	105.63	105.84	27.18	30.04	26.12	28.42
January 1985	286.1	293.7	105.49	107.13	27.26	30.26	26.41	28.65
February	288.5	296.1	106.26	108.02	27.55	30.22	26.56	28.91
March	290.4	298.7	107.15	107.85	27.65	30.43	26.79	29.13
April	292.7	301.1	109.24	108.15	27.92	30.52	26.95	29.36
May	295.6	303.8	108.55	107.72	27.86	30.38	27.15	29.51
June	298.0	306.3	109.03	108.85	27.99	30.94	27.36	29.80
July	301.3	308.8	109.65	109.56	28.16	31.27	27.53	30.19

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	527.0	527.2	5.82	5.85	159.9	160.0	80.7	80.7
March	531.1	532.9	5.95	5.73	161.1	160.8	81.2	80.9
April	536.9	541.1	6.01	5.99	161.2	162.2	81.1	81.5
May	541.2	545.9	6.05	5.75	161.5	162.7	81.2	81.5
June	546.4	546.1	6.09	5.92	161.8	164.1	81.2	82.0
July	552.7	550.8*	6.27	6.05*	162.2	165.6	81.3	82.5
August	557.8	556.0	6.32	6.13	162.7	166.4*	81.4	82.7*
September	562.1	560.7	6.38	6.26	163.3	167.1	81.5	82.9
October	567.5	564.1	6.49	6.34	163.6	166.9	81.6	82.6
November	573.2	567.7	6.63	6.45	163.9	167.6	81.6	82.8
December	578.0	573.5	6.78	6.53	164.3	169.0	81.7	83.2
January 1985	584.6	579.1	6.87	6.62	165.0	169.8	81.9	83.4
February	589.4	584.3	6.96	6.73	165.7	170.3	82.1	83.5
March	593.8	588.8	7.05	6.85	166.4	171.0	82.3	83.7
April	599.2	593.9	7.24	6.98	166.9	171.7	82.5	83.8
May	604.7	599.2	7.36	7.10	167.3	172.2	82.6	83.9
June	610.0	604.5	7.49	7.19	167.5	172.6	82.6	83.9
July	617.3	609.3	7.55	7.25	167.7	173.0	82.7	83.9

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	2.197	2.231	1.360	1.447	1.941	1.946	295.0	300.4	184.0	188.2
March	1.738	1.662	1.173	1.071	1.700	1.727	288.3	309.7	179.1	192.6
April	1.908	2.015	1.205	1.196	1.715	1.758	292.8	305.3	181.4	189.2
May	1.766	1.794	1.148	1.151	1.616	1.745	291.4	311.3	180.2	194.3
June	1.705	1.886	1.102	1.068	1.586	1.776	290.0	310.6	178.9	195.9
July	1.758	1.761	1.115	0.982	1.595	1.562	293.3	311.3*	180.4	196.7*
August	1.706	1.696*	1.078	0.967*	1.562	1.543*	296.1	310.3	181.5	195.6
September	1.666	1.735	1.037	0.963	1.483	1.542	298.5	310.3	182.5	194.5
October	1.659	1.761	1.039	0.985	1.497	1.574	298.8	308.9	182.2	192.8
November	1.675	1.773	1.045	0.969	1.516	1.601	299.0	310.5	182.0	192.9
December	1.669	1.704	1.043	0.943	1.522	1.584	299.4	313.1	181.8	193.6
January 1985	1.666	1.640	1.026	0.996	1.516	1.563	301.6	313.9	182.3	193.2
February	1.649	1.631	1.001	0.991	1.486	1.498	303.9	313.8	182.9	192.3
March	1.632	1.625	0.977	0.976	1.485	1.492	306.3	313.8	183.4	191.3
April	1.622	1.606	0.992	0.953	1.467	1.473	307.4	315.0	183.4	191.3
May	1.589	1.627	0.969	0.965	1.426	1.482	308.5	316.8	183.3	191.4
June	1.578	1.605	0.953	0.962	1.417	1.465	309.8	319.0	183.2	192.1
July	1.510	1.579	0.895	0.981	1.374	1.448	310.6	320.8	182.9	192.4

	Private Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	114.3	110.7	52.2	52.3	128.5	137.4
March	111.6	113.9	51.5	54.8	125.2	141.1
April	113.2	117.0	53.0	54.6	126.6	133.7
May	113.5	121.6	53.4	55.5	124.5	134.2
June	113.7	122.4	53.9	57.0	122.4	131.2
July	115.8	123.0*	54.7	57.6*	122.8	130.7*
August	117.7	123.9	55.5	58.0	122.9	128.4
September	119.7	124.9	56.3	58.5	122.5	126.9
October	120.6	126.0	56.6	58.9	121.6	124.0
November	121.4	127.1	56.9	59.3	120.7	124.1
December	122.3	128.4	57.2	59.8	119.9	124.9
January 1985	123.8	129.7	57.5	60.1	120.3	124.1
February	125.3	131.2	57.8	60.3	120.8	122.3
March	126.7	132.5	58.0	60.9	121.6	120.4
April	127.9	134.2	58.6	61.3	120.9	119.5
May	129.0	136.0	59.1	61.7	120.3	119.1
June	130.1	137.8	59.7	62.2	120.0	119.0
July	131.3	139.2	60.5	62.6	118.8	119.0

Fore. = May Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	306.9	306.9	290.2	290.2	320.4	320.6	220.24	220.21
March	307.4	307.6	291.5	291.6	321.9	321.9	221.08	221.04
April	308.6	309.0	292.3	291.6	322.9	322.5	222.23	221.69
May	309.9	309.6	293.1	291.5	324.0	323.3	223.29	222.25
June	311.2	310.1	294.0	291.4	325.1	323.9	224.35	222.98
July	312.7	310.9*	295.7	292.3	326.5	324.0	225.33	223.48
August	314.2	311.7	297.3	292.9*	327.9	324.8*	226.19	224.35
September	315.6	312.4	299.0	293.0	329.2	324.9	227.23	225.32
October	317.1	313.8	300.4	294.9	331.3	327.4	228.14	226.41
November	318.7	315.2	301.7	295.8	332.4	328.6	228.95	227.45
December	320.3	316.5	303.0	296.7	333.6	329.7	230.03	228.38
January 1985	321.7	317.9	304.5	297.6	335.0	330.6	231.53	229.83
February	323.1	319.3	306.0	298.9	336.4	332.1	232.21	230.87
March	324.6	320.6	307.5	300.1	338.1	333.3	233.28	231.92
April	325.9	322.0	308.6	301.5	339.3	334.7	234.38	232.95
May	327.2	323.3	309.7	302.8	340.4	336.5	235.40	233.96
June	328.5	324.8	310.9	304.1	341.5	337.9	236.45	235.00
July	330.2	326.2	312.6	305.5	343.2	339.5	237.53	236.01

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	217.6	217.9	180.5	179.2	217.2	217.0	231.2	232.6	160.3	159.6
March	218.3	218.8	179.4	179.0	217.6	217.7	231.8	233.7	161.0	160.8
April	219.0	219.1	180.9	179.1	218.1	217.2	233.0	234.9	161.4	161.3
May	220.0	219.1	181.6	179.6	218.9	216.6	234.3	235.7	161.7	160.2
June	221.0	219.3*	182.2	179.5*	219.7	216.0*	235.6	236.5*	162.1	158.6
July	222.0	219.7	182.7	179.4	220.9	215.9	236.5	237.5	162.6	158.3*
August	222.9	220.5	183.2	179.9	222.0	216.5	237.4	238.6	163.1	158.6
September	224.0	221.3	183.8	180.4	223.3	217.4	238.6	239.6	163.6	159.5
October	224.8	222.3	184.4	181.1	223.9	218.3	239.7	240.7	164.0	160.2
November	225.6	223.3	185.0	182.3	224.5	219.2	240.7	241.8	164.3	161.0
December	226.7	224.2	185.6	183.0	225.2	220.2	241.8	242.8	164.7	161.7
January 1985	227.7	225.2	186.3	183.6	226.0	221.1	242.9	243.9	165.4	162.5
February	228.3	226.2	187.0	184.1	226.9	222.0	244.0	245.0	166.2	163.2
March	229.4	227.1	187.7	184.7	227.8	222.9	245.1	246.1	167.0	164.0
April	230.4	228.1	188.3	185.3	228.8	223.8	246.3	247.3	167.6	164.7
May	231.4	229.0	188.8	186.0	229.7	224.7	247.5	248.4	168.3	165.5
June	232.4	230.1	189.4	186.6	230.6	225.7	248.8	249.6	169.1	166.1
July	233.4	231.1	190.1	187.4	231.5	226.5	249.9	250.8	169.8	166.7

Fore. = May Forecast
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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	-8.93	-8.93	165.9	167.0	3549	3565	1611	1619	8.6	11.0
March	-9.10	-9.04	165.0	167.5	3544	3563	1603	1612	12.4	16.8
April	-8.96	-10.95	165.3	168.3	3583	3618	1612	1632	13.9	7.9
May	-8.86	-7.62	166.0	168.9	3601	3643	1613	1639	15.7	9.3
June	-8.75	-7.72	167.1	167.4	3618	3679	1613	1650	17.5	8.0
July	-8.89	-7.82*	167.8	166.9*	3651	3707	1620	1659	19.6	11.4
August	-9.21	-8.84	168.5	167.8	3673	3736	1624	1665	20.5	10.5
September	-9.53	-9.15	169.2	169.1	3702	3755	1629	1667	21.4	8.8
October	-9.40	-9.07	169.0	168.5	3726	3775	1633	1667	21.7	11.7
November	-9.45	-9.62	168.7	169.2	3747	3801	1637	1671	21.4	13.1
December	-9.48	-10.03	169.2	170.4	3774	3839	1641	1681	20.2	12.5
January 1985	-9.46	-9.86	169.8	171.9	3813	3862	1647	1680	19.9	14.2
February	-9.41	-9.71	170.3	172.2	3837	3885	1652	1683	19.5	15.3
March	-9.36	-9.94	170.7	171.8	3866	3911	1657	1686	19.1	15.1
April	-9.53	-10.15	170.5	172.0	3894	3937	1661	1690	18.3	15.8
May	-9.62	-9.62	171.1	171.5	3920	3967	1665	1696	18.0	16.2
June	-9.70	-9.50	171.5	172.2	3950	3991	1671	1698	18.2	16.5
July	-9.86	-9.37	171.2	172.6	3972	4016	1672	1702	19.8	17.3

Fore. = May Forecast
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* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	205.2	205.2	532.9	532.9	2222.1	2222.5	9.59	9.59	9.18	9.18
March	207.8	207.6	535.2	535.2	2228.5	2229.9	9.91	9.91	9.66	9.66
April	209.0	208.4	535.0	535.3	2241.6	2242.2	10.42	10.29	9.73	9.84
May	210.1	210.0	539.3	541.0	2253.9	2259.6	10.61	10.32	9.78	10.31
June	211.2	212.9	543.6	546.2	2268.0	2273.0	10.56	11.06	9.82	10.51
July	212.4	212.5	546.3	545.7	2286.1	2279.8	10.62	11.23	9.85	10.52
August	213.6	214.1	549.6	548.3	2306.7	2295.8	10.59	11.42	9.83	10.36
September	214.8	215.2	552.9	552.1	2325.8	2314.9	10.77	11.52	10.11	10.51
October	215.9	216.3	555.7	554.9	2340.6	2330.3	10.85	11.54	10.21	10.46
November	217.0	217.5	558.6	558.4	2359.9	2349.8	11.07	11.65	10.29	10.69
December	218.1	218.6	562.1	560.8	2368.7	2365.9	11.17	12.03	10.33	11.08
January 1985	219.4	219.8	565.4	564.3	2390.5	2384.4	11.05	12.15	10.15	11.26
February	220.7	221.0	569.0	568.1	2414.5	2404.2	11.09	11.96	9.97	11.03
March	222.0	222.4	572.3	571.7	2439.7	2423.3	11.14	11.88	10.09	10.82
April	223.2	223.5	575.6	574.7	2459.2	2443.3	11.35	11.89	10.19	10.76
May	224.4	224.7	579.0	578.3	2470.9	2461.5	11.43	12.36	10.25	11.15
June	225.6	226.0	582.1	581.9	2482.5	2479.6	11.66	12.15	10.40	11.19
July	226.8	227.3	584.3	584.9	2501.8	2496.4	11.92	11.84	10.74	10.92

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
February 1984	12.08	12.08	9.04	9.64	9.32	9.32	9.54	9.54	11.00	11.00
March	12.57	12.57	9.41	9.94	9.82	9.83	10.08	10.08	11.21	11.21
April	12.65	12.81	9.49	10.19	10.26	10.18	10.46	10.41	12.00	11.93
May	12.73	13.28	9.57	10.49	10.33	10.65	10.55	11.11	12.00	12.39
June	12.80	13.55	9.66	10.67	10.35	10.98	10.58	11.34	12.00	12.60
July	13.09	13.44	9.95	10.28	10.43	11.19	10.63	11.56	12.00	13.00
August	13.22	12.88	10.11	9.73	10.58	11.10	10.70	11.67	12.00	13.00
September	12.84	13.03	9.76	9.90	10.75	11.26	10.89	11.64	12.48	13.00
October	13.03	13.16	9.97	10.03	10.92	11.27	11.04	11.73	12.50	13.00
November	13.20	13.31	10.16	10.18	11.12	11.44	11.26	11.86	12.50	13.16
December	13.04	13.48	10.02	10.38	11.20	11.95	11.38	12.27	12.62	13.50
January 1985	12.88	13.62	9.85	10.56	11.08	12.07	11.29	12.44	13.00	13.83
February	12.96	13.56	9.97	10.44	11.02	12.02	11.24	12.53	13.00	14.00
March	13.04	13.42	10.07	10.27	11.05	11.73	11.32	12.36	13.00	14.00
April	13.20	13.33	10.23	10.16	11.26	11.72	11.56	12.25	13.00	14.00
May	13.26	13.53	10.34	10.48	11.38	12.07	11.69	12.48	13.00	14.00
June	13.36	13.30	10.49	10.09	11.49	12.04	11.74	12.36	13.27	14.00
July	13.51	13.15	10.72	9.86	11.88	11.76	12.19	12.19	13.50	14.00

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9/28/84 U1880- 3 A

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MONTHLY PROJECTIONS
AUGUST 1984

Dr. Donald Ratajczak, Director
For Release: September 20, 1984

ECONOMIC ACTIVITY SHOWS LOWER GROWTH IN AUGUST

Although the index of hours worked rose negligably in August and preliminary estimates of industrial production showed a 0.2% increase, our analysis of GNP suggests that total economic activity expanded little in August. The weakness appears to be related to several areas of economic activity. First, the surge in imported goods in July, which reversed a moderating trend in business inventories, reduced the need for domestic production in August. Second, two consecutive months of declining retail sales led to reduced orders, especially for nondurable goods, from retail establishments. Indeed, the Employment Situation report for August indicated that hours worked declined in the nondurable goods industries. Indeed, only three areas of the economy exhibited strength in August. First, defense shipments continued to expand. Second, shipments of nondefense capitol goods rebounded following a surprising drop in July. Third, the surge in stock market trading led to a one-month estimated surge in purchases of consumer services. Construction also exhibited modest strength, but the weakness of the sectors was sufficient to generate a flat performance for economic activity.

The General Motors strike appears to be having a much smaller impact upon economic activity than in our August forecast assumptions. Initially, the strike was expected to be systemwide and remove about 1.5 percentage points from GNP in the fourth quarter. It now appears that the UAW's selective strike strategy will reduce GNP by less than 0.5%. In addition, no poststrike rebound should be expected.

Two offsetting factors are creating changes in our price estimates at the present time. First, the dollar remains much stronger than had been anticipated, and than can be justified by purchasing power parody considerations. It appears that the dollars is benefitting from a perception of better investment opportunities in the United States than in the host countries of many foreign investors. Also, a suspicion that interest rates may rise further appears to protect those foreign investors from any fears of a swift decline in the dollar's value. Offsetting these forces is the increased presence of dollar-based assets in the portfolios of foreign investors. In effect, they are more exposed to currency risks. Until interest rates are expected to decline in the months ahead, the dollar will have no reason to reverse its unusually strong position. The strong dollar has undoubtedly reduced the cost of imported goods and also limited the foreign markets of industries that normally export, forcing their sales back upon the domestic shores. Second, OPEC has been able to maintain its $29/barrel price for crude petroleum. As prices of refined petroleum products fell in the early summer in anticipation of some decline in those crude prices, we find prices now are inconsistent with prices for crude materials. In order for the refiners to once again establish profitability, they must reduce their production of petroleum products until previous retail margins are re-established. Thus, energy prices will be trending upward for the remainder of 1984. Aside from inflation, the strong dollar has reduced our estimates of domestic production for 1985. Obviously, the merchandise trade deficits are higher than originally anticipated because of the dollar's strength.

Unfortunately, the Federal Reserve refuses to utilize this period of dollar strength to encourage short term interest rates downward. Apparently, they believe that the disinflationary influences of a strong dollar are more significant than the possible destabilizing effects upon production that such a dollars' value might have. However, the dollar may be significantly overvalued at the present time. If so, their continued restraint upon inflation as a result of a strong dollar is a pyrrhic victory. When the dollar re-establishes equillibrium, inflationary pressures will intensify unless the Federal Reserve increases the prevailing interest rate differential between domestic short-term rates and short-term rates abroad. Not only would significantly higher short-term rates from current levels cause further economic disruption, but the inflationary backlash from a declining dollar during that period of establishing equillibrium could undo almost all the favorable influences that price moderation has achieved in the last few years. As the Federal Reserve appears to show little inclination to reduce interest rate differentials during this period of an unsustainably strong dollar, it appears that short term interest rates will be forced upward early in 1985. Long-term interest rates also are expected to rebound modestly, as the slowing in loan demand is not expected to persist into the second half the fourth quarter. Indeed, our monthly GNP estimate show an acceleration of economic activity between October and January. This would be the period of greatest vulnerability to rising interest rates.

Because interest rates have continued to trend downward into September, equity values in excess of 1200 on the Dow Jones Index appear to be justified. Moreover, the significant slowing in GNP growth during the summer quarter appears to be exerting most of its impact upon the earnings growth of wage recipients. For example, the hourly earnings index actually declined by 0.2% in August. Thus, corporate profitability should remain surprisingly strong in the summer months despite a weakening in the growth of economic activity. If interest rates rise in the fall, however, and wage recipients try to recapture an increasing share of total income, then equity values will be vulnerable. Indeed, the 1286 established for the Dow Jones high early in 1984 is not expected to be exceeded in 1985.

QUARTERLY PROFILE OF GNP

	1984-2	1984-3	1984-4	1985-1	1985-2	1985-3
Real:	7.6	4.0	2.3	2.7	2.7	2.5
Price:	3.3	4.2	4.3	5.3	5.1	5.1
Nominal:	11.1	8.3	6.7	8.1	8.0	7.7

Monthly Statistical Highlights for August 1984

Personal income +0.4%; savings rate 6.3%; personal consumption +0.1%; construction expenditures +0.4%; business inventories +0.9%; orders for durable goods +1.1%; orders for nondefense capital goods +2.8%; CPI +0.3%; consumption deflater +0.3%; leading indicator - unchanged; real GNP +0.3%.

Monthly Statistical Highlights for September 1984

Payroll employment +216,000; index of hours work +0.1%; household employment 733,000; civilian unemployment rate 7.4%; personal income +0.8%; savings rate 6.3%; personal consumption +0.8%; retail sales +1.4%; auto sales 10.4 million; housing starts - unchanged; housing permits +1.2%; construction expenditures +0.5%; business inventory +0.8%; orders for durable goods +0.3%; orders for nondefense capital goods +0.1%; industrial production +0.2%; CPI +0.5%; PPI +0.4%; consumption deflator +0.3%; leading indicator +0.4%; real GNP +1.5%; and M1 +14.5%; and M2, 6.1%.

COMMENTARY

Employment - The good news about the 159,000 increase in payroll employment during August, was the absence of more than 50,000 from health services because of a strike. The settlement of that strike should add that number to the payroll gains in September. Also, the GM walkout occurred after the survey week. Therefore, no impact will be registered upon September payroll employment from that strike. The bad news is the shortening of the workweek and the obvious topping out of employment in many nondurable goods industries. Apparently, exposure to foreign competition has significantly reduced the domestic markets of these companies.

The employment figures also indicated that hourly earnings fell in August, leading to a relatively modest gain for personal income. Normally, unusual declines in employment and the labor force as measured by the household survey during the summer is usually reversed in September. For that reason, a surge in both employment and labor force activity is expected at that time. Certainly, the participation rates of females and teenagers remain unusually low.

Personal Income and Outlays - Personal income gains in August, reflect almost solely gains in property income and transfer payments. More significant gains are expected for wage recipients in September. However, hurricane Diana will remove about $0.7 billion at annual rates from the rental category in the September report. Outlays are being distorted in August as a result of the annualizing of increased transaction fees for stockmarket transactions. Outlays for services should surge in August and then show little growth in September. Offsetting that surge in services outlays is a sharp decline in outlays for durable goods as a result of further decreases in automobile sales. Sales for the first ten days of September, however, indicate that auto sales will now be increasing in the months ahead. Therefore, consumer activities is expected to show a significant rebound in September and beyond.

Construction - As interest rates have slowly begun descending as a result of lower long-term rates during the summer months than in the May peak, housing sales have begun to firm. As a result, starts are expected to remain in the vicinity 1.7 million units for the remainder of 1984. As interest rates are expected to trend upward in 1985, housing once again will be crowded out at that time. However, most of the weakness should be registered in the multi-family units, where excess construction activity has been concentrated.

The surge in private nonresidential construction has moderated dramatically in the last few months. It now appears that nonresidential activity will grow significantly slow than originally projected, mostly as a result of cancellation and the stretching out of utility projects. This significant alteration in the forecast leads to substantially lower construction expenditures early in 1985 than originally expected. However, moderate price changes for construction materials should permit the industry as a whole to maintain current levels of activity and through adjustment for inflation through next year. Of course, the mix will be altered to reflect a slower residential and more rapid nonresidential growth than in 1984.

Business Activity - Business inventories rebounded significantly in July following minimal change in June. This rebound apparently reflects both the significant growth of inventory goods from abroad and the inventory and processing of capital equipment. Indeed, shipments of nondefense capital goods showed an unexpected decline in July, but this probably reflects nothing more than a shift in the rate of completion of prevailing orders. Orders remain well above the shipments. Indeed, the decline in both nondefense capital goods orders and shipments in July might indicate that some reports were tardy in that month and will be captured in the next month. If so, more significant gains in orders and shipments could be reported in August than currently expected.

FINANCIAL MARKETS

Long-term interest rates have been following the movement of commercial and industrial loans at large commercial banks. Between January and May loan growth was at an annual rate of 36%. During that period of time, long-term interest rates rose nearly two percentage points while short-term interest rates also increased. Since that time, commercial and industrial loans slowed to an annual rate of 6% into early August and have actually been declining in the last six weeks. Because the Federal Reserve has shown little willingness to reduce short-term interest rates, this weakness in credit market pressures was reflected in declining long-term rates. It now appears that loan demand will once again begin intensifying during the fourth quarter. Increasing borrowings for fixed investment purposes, and also for the financing of rising inventories will be mostly responsible for the growth in external borrowings. However, corporate profitability should show little further growth in the fourth quarter and may be declining slightly in the first half of 1985. Thus, internally generated funds in the corporate sector also will be weak. For these reasons, interest rates are expected to once again trend upward early in 1985. As the Federal Reserve probably will permit short-term rates to move up under increasing credit market pressures, the magnitude of the upswing in long-term interest rates should be smaller than expected in the forecast of August. One exception to that is in the municipal markets, where significant supplies for mortgage subsidy purposes has increased the ratio of the Bond Buyer to the AAA rate.

According to the interest rate movements on sensitive short-term rates, Federal Reserve restraints rather than credit market demands appears to be responsible for the increase in the federal funds rates in late summer. Why the Federal Reserve has engaged in such a policy is not clear. What is clear, however is the intention of the Federal Reserve to continue restraining reserve growth until the economy has visibly slowed.

Equity Markets - As mentioned in the summary, corporate profits are expected to continue expanding through 1984 despite the slowing of economic growth. In 1985, however, rising wage costs and increase interest costs, at least during the early part of that year, should prevent any growth in operating profits. At the same time, rising interest rates should reduce the value of earnings streams being generated by the corporate sector. Thus, stock value should reach a peak early in the fourth quarter, if not sooner, and then should show a declining trend through the first half of 1985.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Inde	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	93449	93449	112.0	112.0	104402	104402	7.8	7.8	159.9	159.9
May	93768	93786	112.0	112.0	105288	105288	7.5	7.5	159.6	159.6
June	93970	94135	112.6	112.7	105748	105748	7.1	7.1	160.3	160.3
July	94286	94351	112.9	112.6	105879	105395	7.3	7.5	161.1	160.8
August	94533	94510	113.2	112.7	106220	104969	7.1	7.5	161.5	160.6
September	94795	94726*	113.6	112.8*	106575	105702*	7.0	7.4*	161.8	161.4*
October	94762	94783	113.3	112.3	106537	106008	7.0	7.3	162.4	162.0
November	94897	94942	113.7	113.2	106895	106225	7.0	7.2	163.0	162.2
December	95416	95178	114.0	113.6	107181	106495	6.9	7.1	163.5	162.9
January 1985	95584	95390	114.3	113.8	107489	106752	6.9	7.1	164.3	163.5
February	95727	95474	114.6	113.9	107646	106890	6.9	7.2	165.3	164.2
March	95960	95573	115.0	114.0	107890	107022	6.7	7.2	166.2	165.0
April	96092	95741	115.0	114.2	108134	107324	6.6	7.1	166.9	165.8
May	96243	95825	115.2	114.3	108363	107467	6.6	7.2	167.6	166.5
June	96385	95985	115.4	114.5	108592	107656	6.5	7.2	168.2	167.2
July	96538	96084	115.6	114.6	108748	107827	6.5	7.2	169.1	168.0
August	96705	96252	115.7	114.8	108915	108036	6.6	7.1	170.0	168.7
September	96874	96436	115.9	115.0	109093	108357	6.7	7.0	170.9	169.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2.969	2.967	1.785	1.785	162.3	158.2	2.545	2.542	2.383	2.384
May	2.981	2.977	1.789	1.790	142.9	134.6	2.554	2.547	2.411	2.413
June	3.005	3.002	1.802	1.804	156.8	144.1	2.573	2.566	2.417	2.422
July	3.028	3.027	1.814	1.815	163.1	157.5	2.591	2.587	2.428	2.429
August	3.050	3.038*	1.825	1.816*	157.9	164.1*	2.609	2.595*	2.451	2.431*
September	3.061	3.062	1.827	1.827	142.9	163.4	2.616	2.614	2.473	2.451
October	3.074	3.073	1.830	1.826	144.7	154.6	2.626	2.622	2.481	2.467
November	3.105	3.102	1.852	1.843	159.7	163.2	2.653	2.648	2.493	2.485
December	3.123	3.127	1.864	1.857	152.2	164.7	2.667	2.669	2.515	2.504
January 1985	3.140	3.139	1.877	1.870	148.2	156.9	2.680	2.677	2.532	2.520
February	3.164	3.159	1.892	1.880	151.3	152.9	2.699	2.693	2.548	2.540
March	3.188	3.178	1.908	1.891	155.7	152.3	2.719	2.708	2.563	2.556
April	3.209	3.200	1.918	1.904	157.5	162.2	2.737	2.726	2.579	2.564
May	3.234	3.218	1.929	1.914	163.7	155.1	2.760	2.738	2.596	2.583
June	3.260	3.240	1.938	1.925	169.0	159.2	2.781	2.761	2.612	2.602
July	3.281	3.261	1.951	1.936	168.3	160.9	2.797	2.778	2.629	2.617
August	3.301	3.280	1.964	1.947	166.5	162.9	2.811	2.793	2.645	2.630
September	3.320	3.302	1.977	1.960	166.2	164.0	2.826	2.812	2.660	2.648

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2307.7	2308.9	309.7	309.7	855.3	855.3	1142.7	1143.9	1053.2	1053.
May	2334.0	2335.6	324.0	325.4	859.8	860.0	1150.2	1150.2	1065.4	1066.
June	2338.4	2344.1	322.5	325.8	858.3	859.5	1157.6	1158.8	1066.5	1069.
July	2349.1	2350.4	323.2	320.8	860.6	867.0	1165.3	1162.5	1067.8	1066.
August	2371.1	2352.4*	324.4	316.9*	867.3	865.6*	1179.4	1169.9*	1073.9	1065.
September	2391.9	2371.3	325.6	322.0	880.0	871.7	1186.3	1177.6	1078.9	1069.
October	2399.3	2387.4	323.8	326.2	880.9	876.9	1194.6	1184.3	1078.3	1073.
November	2410.5	2404.0	322.7	330.5	884.0	881.3	1203.8	1192.2	1079.5	1077.
December	2431.0	2422.6	330.6	335.3	887.4	886.6	1213.0	1200.7	1084.3	1081.
January 1985	2447.0	2437.6	332.9	339.2	892.5	889.6	1221.6	1208.8	1087.6	1083.
February	2461.9	2456.9	333.8	341.9	897.6	898.5	1230.5	1216.5	1090.8	1088.
March	2476.5	2471.7	333.8	342.1	902.1	903.9	1240.6	1225.7	1093.9	1090.
April	2491.7	2479.1	335.1	340.1	907.3	904.5	1249.3	1234.5	1096.2	1088.
May	2507.5	2497.1	336.3	343.0	912.0	910.7	1259.2	1243.4	1098.8	1092.
June	2522.2	2515.5	337.6	345.5	916.7	917.2	1267.9	1252.8	1100.0	1096.
July	2537.9	2529.9	339.7	346.0	920.9	923.7	1277.3	1260.2	1103.0	1098.
August	2552.8	2542.2	341.1	345.2	925.3	927.5	1286.4	1269.5	1105.6	1098.
September	2567.1	2559.4	341.9	344.2	929.4	936.6	1295.8	1278.6	1107.9	1101.

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	107.51	107.51	15.37	15.37	10.1	10.1	70.07	70.07	22.07	22.0
May	108.24	108.24	15.49	15.49	11.0	11.0	70.33	70.33	22.42	22.4
June	108.78	109.32	15.50	15.71	10.8	11.0	70.42	70.64	22.86	22.9
July	108.94	107.14	15.71	15.35	10.7	10.6	70.50	69.77	22.73	22.0
August	109.77	106.23*	15.77	15.43	10.8	10.0	71.05	69.66	22.95	21.1
September	110.81	107.67*	15.69	15.53*	10.8	10.4*	72.09	70.15*	23.03	21.9
October	110.67	108.58	15.76	15.65	10.6	10.5	72.17	70.57	22.74	22.3
November	110.80	109.43	15.93	15.78	10.3	10.7	72.42	70.92	22.45	22.7
December	112.02	110.42	15.88	15.85	10.9	10.9	72.70	71.35	23.44	23.2
January 1985	112.71	111.03	15.90	15.97	11.0	11.0	73.12	71.51	23.69	23.5
February	113.22	111.98	16.09	16.02	10.9	11.1	73.53	72.14	23.60	23.8
March	113.60	112.36	16.19	16.15	10.8	11.0	73.90	72.50	23.51	23.7
April	114.18	112.26	16.25	16.21	10.8	10.8	74.33	72.63	23.60	23.4
May	114.70	113.34	16.44	16.32	10.7	10.9	74.71	73.37	23.55	23.6
June	115.25	114.07	16.37	16.43	10.8	11.0	75.10	73.81	23.78	23.8
July	115.84	114.65	16.37	16.52	10.9	11.0	75.44	74.33	24.03	23.8
August	116.36	114.86	16.65	16.58	10.8	10.9	75.80	74.64	23.91	23.6
September	116.80	115.48	16.64	16.63	10.8	10.8	76.14	75.37	24.02	23.4

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	270.4	270.4	98.32	98.32	25.89	25.89	24.80	24.80
May	274.6	274.6	102.26	102.26	28.96	28.96	25.89	25.89
June	277.8	277.3	99.83	99.17	28.08	28.03	27.04	26.89
July	280.3	280.0	97.78	100.50	27.63	27.09*	26.56	25.63
August	282.6	282.2*	98.72	101.60*	27.85	27.85*	26.94	26.65*
September	285.4	284.5	99.63	101.92	28.43	27.88	27.47	26.93
October	288.1	287.0	99.67	102.47	28.40	28.15	27.55	27.21
November	290.3	288.9	100.39	104.11	28.32	28.52	27.67	27.52
December	292.3	291.9	101.27	103.27	28.57	28.50	27.80	27.73
January 1985	294.8	293.7	103.43	104.05	29.18	28.72	28.15	27.91
February	297.1	295.8	103.76	104.48	29.20	28.86	28.46	28.15
March	299.8	298.0	104.68	105.13	29.53	28.99	28.79	28.37
April	302.2	300.3	103.78	104.72	29.50	28.86	28.85	28.52
May	305.7	302.7	105.14	105.61	29.63	29.21	28.93	28.73
June	307.8	305.3	104.88	105.94	29.71	29.28	28.93	28.90
July	310.4	307.1	106.62	106.62	30.12	29.36	29.01	28.85
August	313.2	309.2	107.18	107.82	30.28	29.58	29.50	29.11
September	315.7	312.4	107.50	108.95	30.37	29.79	29.76	29.42

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	541.1	541.1	5.99	5.99	162.2	162.2	81.5	81.5
May	545.9	545.9	5.75	5.75	162.7	162.9	81.5	81.6
June	550.8	546.8	5.92	5.98	164.1	164.4	82.0	82.2
July	556.3	551.2	6.06	5.97	165.2	165.8	82.3	82.6
August	560.5	556.0*	6.18	6.13*	166.3	166.2	82.6	82.6
September	564.7	560.6	6.36	6.22	166.5	166.5*	82.5	82.6*
October	569.3	565.7	6.35	6.30	166.2	166.9	82.1	82.7
November	573.9	571.3	6.43	6.38	166.7	167.5	82.2	82.8
December	578.1	576.4	6.52	6.49	167.3	168.0	82.4	82.9
January 1985	582.2	580.2	6.60	6.55	167.9	168.4	82.5	82.9
February	586.9	584.4	6.70	6.66	168.5	168.7	82.6	82.9
March	591.8	588.3	6.79	6.73	169.1	169.1	82.8	82.9
April	594.7	592.8	6.91	6.85	169.4	169.6	82.8	83.0
May	599.3	597.2	7.01	6.96	169.6	169.8	82.7	83.0
June	606.6	603.3	7.12	7.05	169.9	170.3	82.7	83.0
July	613.4	608.6	7.23	7.18	170.3	170.6	82.7	83.0
August	617.3	612.4	7.35	7.25	170.7	171.1	82.7	83.0
September	620.8	616.5	7.48	7.36	171.0	171.5	82.8	83.1

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are expectations.

CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2.015	2.015	1.196	1.196	1.758	1.758	305.3	305.3	189.3	189.2
May	1.794	1.794	1.151	1.131	1.745	1.745	311.3	311.0	194.3	194.1
June	1.886	1.886	1.068	1.092	1.776	1.776	310.6	309.3	195.8	195.1
July	1.763	1.761	1.036	0.982	1.624	1.562	314.1	311.4	196.9	196.0
August	1.707	1.739*	1.015	0.987*	1.582	1.548*	317.4	312.7*	198.0	196.2
September	1.696	1.739	1.027	0.996	1.556	1.566	319.5	314.2	198.4	196.6
October	1.728	1.731	1.058	1.004	1.573	1.583	321.6	313.1	199.4	195.4
November	1.714	1.731	1.040	1.015	1.582	1.588	320.6	314.1	198.3	195.5
December	1.701	1.728	1.028	1.007	1.542	1.574	319.4	315.9	197.0	196.2
January 1985	1.656	1.690	1.003	0.983	1.503	1.526	322.1	317.5	197.9	196.7
February	1.692	1.755	1.032	1.037	1.517	1.548	328.1	318.6	200.9	197.0
March	1.719	1.729	1.043	1.035	1.538	1.563	333.8	321.0	203.9	197.8
April	1.684	1.685	1.002	1.009	1.543	1.547	332.3	322.8	202.1	198.2
May	1.608	1.630	0.994	0.962	1.496	1.511	331.7	324.4	201.0	198.4
June	1.595	1.625	0.953	0.953	1.472	1.488	333.1	323.9	201.0	197.3
July	1.638	1.597	0.986	0.965	1.483	1.463	336.1	324.2	202.0	196.5
August	1.627	1.625	0.974	0.982	1.465	1.468	338.0	324.7	202.5	196.0
September	1.577	1.606	0.917	1.017	1.441	1.455	339.8	326.7	202.9	196.3

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	117.0	117.0	54.6	54.6	133.7	133.7
May	121.6	121.5	55.5	55.6	134.2	133.9
June	122.4	120.7	57.0	57.6	131.2	130.9
July	124.4	121.0	56.9	57.0	132.8	133.3
August	126.3	122.5*	57.5	57.5*	133.6	132.7*
September	128.1	123.8	58.2	57.9	133.2	132.5
October	130.3	124.6	58.7	58.4	132.6	130.1
November	132.5	125.5	59.1	58.9	129.0	129.7
December	134.8	126.7	59.6	59.4	125.0	129.8
January 1985	136.9	127.8	60.0	59.9	125.2	129.8
February	138.9	129.3	60.3	60.2	128.9	129.1
March	141.0	130.2	60.5	60.7	132.3	130.1
April	142.6	131.1	60.8	61.1	128.9	130.6
May	144.1	131.9	61.1	61.5	126.5	131.0
June	145.7	132.8	61.5	61.9	125.9	129.2
July	147.4	133.9	62.3	62.3	126.4	128.0
August	148.7	135.0	63.1	62.7	126.2	127.0
September	150.1	136.1	63.8	63.2	125.9	127.4

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	309.0	309.0	291.6	291.2	322.5	322.6	221.69	221.69
May	309.6	309.6	291.5	291.5	323.3	323.3	222.25	222.28
June	310.1	310.1	291.4	291.4	323.9	323.9	222.98	223.02
July	311.1	311.1	292.2	292.3	324.3	324.0	223.55	224.04
August	312.0	311.7*	292.8	292.0	325.0	323.5	224.16	224.60
September	312.9	313.1	293.3	292.0*	326.3	324.1*	225.01	225.37
October	314.5	314.2	294.4	293.0	328.4	326.3	225.93	226.20
November	316.0	315.2	295.5	293.9	328.6	327.0	226.89	226.96
December	317.6	316.5	296.6	295.1	328.9	327.4	227.85	227.79
January 1985	318.9	317.8	297.5	296.3	330.6	328.0	229.11	229.10
February	320.2	319.1	298.4	297.5	332.4	328.5	229.93	229.95
March	321.5	320.4	299.6	298.7	334.1	329.0	230.75	230.82
April	323.0	322.0	300.8	299.9	335.2	329.6	231.63	231.87
May	324.6	323.1	302.0	300.9	336.4	330.3	232.60	232.77
June	326.3	324.4	303.5	302.1	337.5	331.2	233.62	233.84
July	327.4	325.7	304.1	303.3	339.0	332.4	234.54	234.63
August	328.5	326.9	305.0	304.4	340.8	333.7	235.41	235.83
September	329.7	328.3	306.1	305.7	342.6	335.0	236.30	236.76

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	219.1	219.1	179.1	179.1	217.2	217.2	234.9	234.9	161.3	161.3
May	219.1	219.1	179.6	179.8	216.6	216.5	235.7	235.7	160.2	160.2
June	219.3	219.2	179.5	179.8	216.0	215.4	236.5	236.9	158.6	158.6
July	220.0	220.3*	179.8	180.3*	216.5	216.3*	237.7	238.2*	159.5	158.9*
August	220.8	220.9	180.0	180.5	217.1	216.1	238.8	239.3	160.3	159.4
September	221.7	221.6	180.2	180.8	217.7	217.0	240.0	240.3	161.0	159.8
October	222.5	222.4	180.5	181.3	218.4	217.8	241.1	241.2	161.3	160.2
November	223.3	223.1	180.9	181.8	219.0	218.5	242.1	242.2	161.7	160.7
December	224.2	224.0	181.3	182.2	219.6	219.3	243.0	243.4	162.1	161.0
January 1985	225.0	224.9	181.7	182.6	220.3	220.1	244.2	244.8	162.8	161.4
February	225.7	225.8	182.0	183.0	221.0	220.9	245.5	246.0	163.3	161.7
March	226.4	226.7	182.3	183.3	221.7	221.6	246.8	247.2	163.7	162.3
April	227.3	227.8	182.6	183.7	222.4	222.5	247.9	248.5	164.4	162.9
May	228.2	228.6	183.0	184.2	223.0	223.2	249.0	249.7	165.0	163.5
June	229.3	229.5	183.4	184.6	223.7	224.0	250.1	250.8	165.7	164.2
July	230.1	230.4	183.9	185.1	224.4	224.7	251.3	252.0	166.4	165.0
August	230.9	231.3	184.5	185.6	225.0	225.5	252.5	253.1	166.9	165.7
September	231.7	232.3	185.1	186.1	225.6	226.3	253.6	254.3	167.5	166.4

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	-10.95	-10.95	168.3	168.3	3618	3619	1632	1632	7.9	7.8
May	-7.62	-7.62	168.9	168.8	3643	3644	1639	1639	9.3	8.5
June	-7.72	-7.72	167.4	166.6	3679	3682	1650	1651	8.0	7.0
July	-9.42	-14.06	167.0	165.3	3705	3710	1657	1657	6.2	5.4
August	-7.63	-11.58*	167.5	165.3*	3725	3719	1662	1656	4.3	3.1
September	-8.78	-10.21	168.2	166.0	3746	3737	1665	1658	3.6	3.8
October	-8.93	-9.65	168.0	167.1	3768	3760	1668	1662	9.9	7.2
November	-9.08	-9.88	168.5	167.5	3785	3779	1668	1665	16.7	6.8
December	-8.92	-10.24	169.3	168.3	3822	3809	1677	1672	19.9	7.9
January 1985	-7.85	-10.83	169.8	168.2	3847	3830	1679	1672	18.7	10.4
February	-8.63	-11.02	170.5	168.7	3875	3856	1685	1677	17.5	9.7
March	-10.32	-10.75	170.8	170.1	3914	3885	1696	1683	16.2	10.2
April	-8.86	-10.94	171.3	171.3	3928	3900	1696	1682	18.4	10.6
May	-9.25	-11.26	171.8	172.0	3952	3934	1699	1690	20.3	11.5
June	-9.02	-11.43	172.2	172.2	3977	3961	1702	1694	20.1	11.8
July	-8.95	-11.65	171.5	172.8	4002	3982	1706	1697	20.8	13.4
August	-8.82	-11.32	171.2	172.5	4029	4005	1711	1698	21.1	15.1
September	-8.76	-10.88	170.8	171.8	4055	4029	1716	1702	20.8	15.7

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	208.4	208.4	535.3	535.4	2242.2	2242.9	10.29	10.29	9.84	9.84
May	210.0	210.0	541.0	541.1	2259.6	2258.6	10.32	10.32	10.31	10.31
June	212.9	212.8	546.2	546.2	2273.0	2271.7	11.06	11.06	10.51	10.51
July	213.0	212.5	547.3	545.5	2285.5	2281.0	11.15	11.23	10.50	10.52
August	214.1	212.7	550.2	546.3	2296.2	2289.1	11.31	11.64	10.46	10.61
September	215.3	215.8*	553.3	554.5*	2307.5	2302.8*	11.32	11.61*	10.55	10.43
October	216.7	217.1	557.8	559.7	2322.4	2323.8	11.30	11.53	10.43	10.35
November	218.3	218.2	561.2	563.0	2343.6	2340.4	11.35	11.55	10.47	10.48
December	219.9	219.5	564.6	566.9	2366.2	2359.5	11.33	11.60	10.52	10.61
January 1985	221.2	221.0	568.3	571.3	2384.6	2381.2	11.62	11.52	10.67	10.52
February	222.6	222.3	572.1	575.8	2400.2	2400.7	11.76	11.68	10.76	10.65
March	224.1	224.0	575.8	579.3	2415.9	2420.6	11.91	11.79	10.85	10.88
April	225.5	224.9	578.9	581.4	2435.7	2435.6	12.27	12.02	11.02	11.14
May	226.9	226.0	582.4	583.5	2456.9	2449.8	12.53	12.21	11.20	11.22
June	228.3	227.1	586.1	587.1	2477.3	2486.0	12.46	12.36	11.17	11.28
July	229.7	228.2	589.0	590.6	2495.2	2487.9	12.02	12.32	10.72	11.20
August	231.0	229.5	591.8	594.2	2509.8	2506.0	11.75	12.07	10.43	11.06
September	232.3	230.7	594.6	597.5	2524.7	2524.2	11.48	11.82	10.29	10.97

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	12.81	12.81	10.19	10.19	10.18	10.18	10.41	10.41	11.93	11.93
May	13.28	13.28	10.49	10.49	10.65	10.65	11.11	11.11	12.39	12.39
June	13.55	13.55	10.67	10.67	10.98	10.98	11.34	11.34	13.00	12.60
July	13.43	13.44	10.48	10.42*	11.18	11.19	11.52	11.56	13.00	13.00
August	13.07	12.87	10.13	10.06	11.30	11.18	11.73	11.47	13.00	13.00
September	12.62	12.78*	9.72	10.03*	11.32	11.25*	11.80	11.56*	13.00	13.00*
October	13.06	12.94	10.12	10.22	11.30	11.28	11.71	11.62	13.00	13.00
November	13.39	13.15	10.47	10.39	11.26	11.36	11.59	11.68	13.00	13.00
December	13.72	13.22	10.84	10.47	11.25	11.40	11.55	11.73	13.00	13.18
January 1985	13.52	13.20	10.68	10.49	11.58	11.47	11.88	11.80	13.37	13.50
February	13.46	13.36	10.57	10.64	11.71	11.52	11.99	11.84	13.50	13.50
March	13.51	13.43	10.61	10.74	11.90	11.66	12.17	11.93	13.78	13.73
April	13.59	13.51	10.74	10.82	12.07	11.73	12.38	12.07	14.00	14.00
May	13.92	13.57	11.14	10.87	12.36	11.85	12.63	12.20	14.36	14.00
June	13.74	13.55	10.94	10.85	12.30	11.90	12.65	12.28	14.50	14.00
July	13.41	13.46	10.54	10.76	11.98	12.02	12.36	12.34	14.43	14.00
August	13.17	13.21	10.30	10.50	11.74	11.93	12.07	12.26	13.93	14.00
September	13.08	13.09	10.20	10.38	11.39	11.84	11.68	12.11	13.42	13.92

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.

10/23/84 U1880-3 A

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MONTHLY PROJECTIONS
SEPTEMBER 1984

Dr. Donald Ratajczak, Director
For Release: October 16, 1984

STRIKE DISRUPTIONS STALL ECONOMIC GROWTH IN SEPTEMBER

Despite a significant rebound in consumer activity, economic activity showed no growth in September. The source of this weakness was a significant deterioration in business inventories as a result of strike disruptions in the automobile industry. The degree of slowing in automobile activity only affected one portion of the month of September, as the strike was settled before the end of the month. Production should recover modestly in October, but the largest rate of increase should be recorded in November. Our estimates showed minimal growth of real economic activity in August and no growth in September. Even with the resumption of increased production economic activity during the fourth quarter will be sluggish. More significant growth in production is expected in the first quarter of 1985; but consumer activity is expected to be restrained by reduced gains in purchasing power about that time. Thus, production once again is expected to slow in the second and third quarters of 1985, although construction activity, which is expected to decline significantly during the fall and winter months, should be adding to economic growth at that time.

It should be noted, however, that the index of hours worked increased in September despite no growth in production. Indeed, productivity gains during the third quarter probably did not exceed one percent while unit labor costs appeared to have increased by more than four percent. Although our estimates still show that the GNP deflator will increase close to that four percent rate of gain in labor costs, the initial estimates of prices contain in the "flash" would suggest a significant profit squeeze already beginning during the third quarter. Because interest rates have been declining as a result of this reduced economic growth, partially resulting from a shift towards increased savings in the household sector, stock prices also should have increased. While a significant summer rally developed in early August, little further gains have developed in the equity markets since that time. Thus, the stock market does not fully reflect the existence of a profit squeeze during the third quarter, but it is becoming concerned that such a squeeze in profitability could develop in the fall quarter. Our own projections indicate that unit labor costs will be growing nearly five percent during the fall while the private deflator will be increasing only slightly more than four percent. Thus, a decline in profitability is very likely at that time.

Although the most substantial contributor to reduced economic activity during the third quarter was the shift in consumer activity, fixed investment also grew at a much slower pace than during the first part of the year. For example, shipments of nondefense capital goods are expected to show a growth at nominal rate of less than four percent during the summer. In addition, there has been virtually no growth in nonresidential construction spending during the summer months. Of course, residential construction declined in the summer. Thus, the brisk increases in investment activity that were recorded in the first six months of 1984 were not sustained during the summer. When the slowdown in investment growth is added to the acceleration in consumer savings, a reduction in interest rates that did materialize is easy to understand.

Moreover, foreign investors continue to seek the dollar for their portfolios. By the end of the quarter, the Federal Reserve apparently was attempting to increase available reserves in an effort to lower short-term interest rates and stem the speculative flow of funds into the dollar-based assets. Thus far, the Federal Reserve has not been successful in offsetting those foreign flows, although Federal Reserve action has not been effectively timed and has been less aggressive than necessary to achieve a reversal in the dollar's upward course. Because the increased strength in the dollar provides the Federal Reserve with leeway to significantly increase available reserves without stimulating any significant inflationary fallout, it is likely that short-term interest rates will remain near current levels for the remainder of the quarter. However, even foreign investors must eventually be satiated with dollars. In addition, such accommodations by the Federal Reserve should begin to increase growth of monetary aggregates before the end of 1984. Thus, increasing inflationary concerns should reappear early in 1985. At that time, a less accommodative Federal Reserve probably will be generating higher short-term interest rates. Because inflationary pressures also will be intensifying, long-term interest rates will probably be rising. However, economic expansion will not be sufficiently robust to reawaken an investment boom. At the same time, some moderation in government's use of the credit markets as a result of higher Social Security taxes and results of the 1984 tax legislation, should prevent the upward movement of interest rates from becoming substantial. Toward the end of 1985, interest rates are expected to turn downward.

QUARTERLY PROFILE OF GNP

	1984-2	1984-3	1984-4	1985-1	1985-2	1985-3
Real:	7.1	3.8	3.0	4.5	3.4	2.6
Price:	3.3	4.0	4.3	5.6	4.9	5.0
Nominal:	10.7	8.0	7.5	10.3	8.6	7.6

Monthly Statistical Highlights for September 1984

construction expenditures +0.4%; housing starts - unchanged; business inventories +0.7%; orders for durable goods +0.6%; orders for nondefense capital goods +2.2%; CPI +0.4%; consumption deflater +0.3%; leading indicator +0.2%; real GNP - unchanged.

Monthly Statistical Highlights for October 1984

Payroll employment +144,000; index of hours worked - unchanged; household employment +399,000; civilian unemployment rate 7.4%; personal income +0.5%; savings rate 6.1%; personal consumption +0.7%; retail sales +0.8%; auto sales 10.3 million; housing starts -4.4%; housing permits -5.2%; construction expenditures -1.1%; business inventory +0.9%; orders for durable goods +1.1%; orders for nondefense capital goods +1.0%; industrial production +0.5%; CPI +0.3%; PPI +0.6%; consumption deflator +0.4%; leading indicators +0.3%; real GNP +2.9%; and M1 +10.5%; and M2, 11.3%.

COMMENTARY

Employment - The 139,000 increase in payroll employment during September was even worse than it looked; for 50,000 people returned to their health services jobs from strike activity, while payrolls in local government increased by 70,000. This increase largely reflects the return of educators and more properly measures faulty seasonals than any surge in educational employment. Of course, the GM strike raised concerns in related industries. Apparently, those industries did not replace their normal turnover in September. This probably explains why the workweek increased even as employment declined in most manufacturing industries. More significant payroll expansion should develop in October. Nevertheless, the September employment report did not show strengthening in employment opportunities. Indeed, only an unanticipated shrinking of the female participation rates prevented the unemployment rate from actually rising. That shrinking of female participation rates cannot be expected to persist. Thus, the acceleration in employment during October should have not appreciable effect upon lowering the unemployment rate. Indeed, an increase in the unemployment rate to the levels recorded in July and August should not be surprising.

If our estimates of economic activity are correct for September, the sharp expansion in hours worked during that month reflects a significant deteriotation in corporate profitability. In addition, the hourly earnings index expanded by 0.7%, although it remains only 3.5% above previous year levels. Nevertheless, labor cost presures are beginning to intensify at this stage of the cycle.

Personal Income and Outlays - Most of the personal income gains in September are the result of significant expansion in wages and hours of employment. The impact of hurricane Diana will partially reduce personal income gains during September, but significant expansion is expected in disposable income. This will be beneficial, because the strength in outlays appears to also be significant. Despite a significant slowing in purchases in the services component, reflecting a moderation in financial transactions, a surge in nondurable goods spending appears to have developed. Some of this dramatic increase appears to be the result of increasing activity; but sharp expansion in purchases of gasoline and some food items more properly reflects increases in prices. Even with this surge in nondurable goods, however, the savings rate remains largely unchanged during September.

Retail Sales - The General Motors strike impacted the availability of automobiles. As a result, sales fell sharply late in September and are expected to remain weak early in October. This will prevent sales from rebounding in October. However, sharp gains in automobiles sales should be recorded in

November. Moreover, the increase in nondurable sales during September appears to reflect a bunching of activity rather than a dramatic reawakening of consumer desires for nondurable goods. Indeed, the surge in gasoline purchases probably reflects price changes rather than a volume increase. Thus, much slower gains in retail activity are expected in October.

Construction - Weakness in single family housing sales has led to a downward revision in estimated single family starts for the next several months. This weakening in sales appears to be the result of declining mortgage rates. Apparently, many potential home buyers view the improving mortgage condition as the beginning of a trend and do not wish financial commitments until they know how much lower mortgage rates will fall. Also, changes in the tax law appear to have impacted multi-family activity. Multi-family starts should remain near 600,000 units for the remainder of this year and may actually fall slightly below that level for a short period of time early in 1985. However, this decline in housing starts is not expected to go much further. Indeed, starts probably will be trending upward in the second half of 1985.

Construction prices have shown little trend in recent months, partially as a result of significant weakness in lumber products. This weakness in lumber prices is expected to continue into the spring of 1985. During the next year, the implicit construction cost index is expected to increase only 4.5%. Moreover, this surge in nonresidential construction appears to have ended. Indeed, significant slowdowns in cancellation of utility construction required a dramatic slowing in our projections for that sector. This has caused a significant slowing in total construction expenditures during the fall and continuing into the early months of 1985.

Business Activity - When are orders for nondefense capital goods going to rise? After a dramatic surge in the spring, these orders have trended downward in recent months. There is some evidence that orders are rebounding following the important trade show in September. However, a rebound now is necessary, because orders are approaching the level of shipments. To be sure, capital spending is stronger than this direction of orders suggests, as foreign supplies are meeting the demands of domestic purchasers. Indeed, capital spending could continue surge into 1985 without generating any appreciable increase in employment in the capital goods industry.

Of course, the GM strike will reduce the shipment of some transportation equipment during September and early October. This will have a restraining effect on the growth of durable goods orders in those two months.

Prices - Once again the September PPI has no relationship to underlying inflationary pressures. The dealer discounting reduced automobile prices by nearly 5% in the September PPI. If more realistic procedures for dealer discounts were used, ones that are weighed by the volume of cars shipped during that month, the PPI would have been 0.2 percentage points higher. When shipping distortions are not a problem in October, this will add 0.2 percentage points to that month's PPI. However, gasoline shipments also created distortions in September. Despite significant increases in announced wholesale prices for gasoline, the BLS reported a further decline in gasoline prices. Apparently, most of the August gasoline was delivered early in the month. Because of this shipment distortion, gasoline prices will take a large unseasonal increase in September. This explains why we are showing a 0.6% increase in the October PPI, which uses September gasoline shipments, despite a modest slowing in the October CPI.

FINANCIAL MARKETS

During the summer months all forces were favorable for declining interest rates. First, the household sector sharply increased its savings rate while reducing its mortgage borrowings and slowing the rate of increase of consumer installment debt. Secondly, the corporate sector sharply slowed its growth of fixed investment even as our figures suggest the corporate profitability continued to increase. Third, significant gains in tax payments appeared to have slightly reduced total government deficits. Finally, foreign investors once again desired American financial assets. In short, all forces were moving toward encouraging declining rates of interest.

During the fourth quarter, however, the government sector no longer will be reducing its claim upon credit markets. Indeed, significant government supply caused by delays in changing the debt limitation may create some surpluses in available government securities. Also, the household sector appears to be reducing its rate of savings in the fall, although declines in the accumulation of mortgage debt largely offset this influence. If the corporate sector once again increases growth for fixed investment, a condition not yet anticipated by prevailing orders, then interest rates will need to rise before the end of the quarter. This increase could be further exacerbated by any shift against the dollar by foreign investors. At the present time, however, any shift toward increasing interest rate pressure should be modest. Early in 1985, however, the slowing of mortgage debt accumulation is expected to end. Our projections show further significant decline in household savings. Moreover, a modest profit squeeze in the corporate sector could increase corporate borrowing even if fixed investment shows significant strength. Thus, interest rates are expected to rise early in 1985, but the degree of increase should fall well below levels argued by some prominent Wall Street economists. By the end of 1985, interest rates once again should be trending downward unless foreign investor sentiment has shifted so dramatically against the dollar that the Federal Reserve will be encouraged to restrain monetary growth in an effort to control the degree of decline in the dollar's value.

Equity Markets - Our figures suggest that corporate profitability continue to grow during the third quarter. With interest rates declining, the combination was especially favorable for rising equity values. A summer rally did materialize, but the magnitude of this rally was not significant. Apparently, the market began looking ahead to possible profit squeezing in the fourth quarter and early in 1985. Our estimates suggest that such concerns are justified. However, falling interest rates through the fourth quarter should restrict the degree to which equity values can decline. During the first half of 1985, however, declining profitability and rising interest rates should cause a significant decline in stock market values. Indeed, the Dow Jones could trade in the vicinity of 1100 early in the year. Later in the year improved profitability and declining interest rates once again should provide opportunities for equity investment.

EMPLOYMENT

	Payroll Employment		Index of Hours Worked		Household Civilian Employment		Civilian Unemployment Rate		Hourly Earnings Inde	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	93449	93449	112.0	112.0	104402	104402	7.8	7.8	159.9	159.9
May	93768	93786	112.0	112.0	105288	105288	7.5	7.5	159.6	159.6
June	93970	94135	112.6	112.7	105748	105748	7.1	7.1	160.3	160.3
July	94286	94350	112.9	112.6	105879	105395	7.3	7.5	161.1	160.8
August	94533	94532	113.2	112.6	106220	104969	7.1	7.5	161.5	160.6
September	94795	94671	113.6	113.2	106575	105239	7.0	7.4	161.8	161.7
October	94762	94815*	113.3	113.2*	106537	105638*	7.0	7.4*	162.4	162.4
November	94897	94975	113.7	113.4	106895	105861	7.0	7.4	163.0	163.0
December	95416	95183	114.0	113.6	107181	106099	6.9	7.3	163.5	163.7
January 1985	95584	95390	114.3	113.8	107489	106333	6.9	7.3	164.3	164.3
February	95727	95557	114.6	114.0	107646	106529	6.9	7.2	165.3	165.1
March	95960	95721	115.0	114.1	107890	106724	6.7	7.2	166.2	165.8
April	96092	95889	115.0	114.3	108134	106982	6.6	7.1	166.9	166.5
May	96243	96057	115.2	114.5	108363	107180	6.6	7.1	167.6	167.2
June	96385	96222	115.4	114.6	108592	107425	6.5	7.0	168.2	167.9
July	96538	96390	115.6	114.8	108748	107632	6.5	7.0	169.1	168.8
August	96705	96558	115.7	115.0	108915	107819	6.6	7.0	170.0	169.6
September	96874	96723	115.9	115.1	109093	108031	6.7	6.9	170.9	170.5

PERSONAL INCOME

	Personal Income		Wage & Salary		Personal Savings		Disposable Income		Personal Outlays	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2.969	2.969	1.785	1.785	162.3	153.4	2.545	2.544	2.383	2.385
May	2.981	2.979	1.789	1.790	142.9	132.1	2.554	2.549	2.411	2.417
June	3.005	3.007	1.802	1.804	156.8	143.9	2.573	2.570	2.417	2.426
July	3.028	3.027	1.814	1.813	163.1	157.6	2.591	2.587	2.428	2.429
August	3.050	3.043	1.825	1.817	157.9	168.8	2.609	2.600	2.451	2.431
September	3.061	3.067*	1.827	1.833*	142.9	167.9*	2.616	2.621*	2.473	2.453*
October	3.074	3.082	1.830	1.840	144.7	161.2	2.626	2.632	2.481	2.471
November	3.105	3.104	1.852	1.851	159.7	154.2	2.653	2.651	2.493	2.497
December	3.123	3.123	1.864	1.861	152.2	148.8	2.667	2.665	2.515	2.516
January 1985	3.140	3.137	1.877	1.876	148.2	146.5	2.680	2.675	2.532	2.529
February	3.164	3.156	1.892	1.888	151.3	146.8	2.699	2.689	2.548	2.542
March	3.188	3.175	1.908	1.898	155.7	144.3	2.719	2.704	2.563	2.560
April	3.209	3.195	1.918	1.908	157.5	142.2	2.737	2.719	2.579	2.577
May	3.234	3.216	1.929	1.920	163.7	142.4	2.760	2.737	2.596	2.595
June	3.260	3.235	1.938	1.929	169.0	139.5	2.781	2.752	2.612	2.613
July	3.281	3.269	1.951	1.943	168.3	155.7	2.797	2.783	2.629	2.627
August	3.301	3.290	1.964	1.956	166.5	155.1	2.811	2.798	2.645	2.643
September	3.320	3.312	1.977	1.968	166.2	158.8	2.826	2.816	2.660	2.657

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CONSUMPTION

	Personal Consumption		Durables		Nondurables		Services		Consumption Real	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2307.7	2310.1	309.7	309.7	855.3	855.3	1142.7	1145.1	1053.2	1053.
May	2334.0	2340.1	324.0	325.4	859.8	860.0	1150.2	1154.8	1065.4	1067.
June	2338.4	2347.9	322.5	326.9	858.3	859.7	1157.6	1161.2	1066.5	1071.
July	2349.1	2349.1	323.2	320.0	860.6	861.2	1165.3	1167.9	1067.8	1066.
August	2371.1	2350.3	324.4	315.1	867.3	856.4	1179.4	1178.8	1073.9	1062.
September	2391.9	2371.3*	325.6	317.5*	880.0	870.3*	1186.3	1183.5*	1078.9	1068.
October	2399.3	2388.3	323.8	321.2	880.9	875.7	1194.6	1191.3	1078.3	1071.
November	2410.5	2413.4	322.7	331.7	884.0	881.1	1203.8	1200.6	1079.5	1080.
December	2431.0	2431.9	330.6	333.4	887.4	889.4	1213.0	1209.1	1084.3	1084.
January 1985	2447.0	2443.3	332.9	332.5	892.5	892.2	1221.6	1218.6	1087.6	1084.
February	2461.9	2456.1	333.8	333.1	897.6	895.3	1230.5	1227.7	1090.8	1085.
March	2476.5	2472.6	333.8	335.1	902.1	900.9	1240.6	1236.6	1093.9	1088.
April	2491.7	2488.9	335.1	339.0	907.3	904.1	1249.3	1245.8	1096.2	1091.
May	2507.5	2505.7	336.3	341.6	912.0	909.7	1259.2	1254.4	1098.8	1094.
June	2522.2	2522.6	337.6	343.8	916.7	914.6	1267.9	1264.2	1100.0	1097.
July	2537.9	2536.4	339.7	342.6	920.9	920.5	1277.3	1273.3	1103.0	1098.
August	2552.8	2550.9	341.1	344.3	925.3	924.2	1286.4	1282.5	1105.6	1100.
September	2567.1	2564.4	341.9	344.1	929.4	928.4	1295.8	1291.9	1107.9	1101.

RETAIL SALES

	Retail Sales		Non-Auto Durables		Auto (Million Units)		Nondurable Sales		Auto Sales	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	107.51	107.51	15.37	15.37	10.1	10.2	70.07	70.07	22.07	22.07
May	108.24	108.24	15.49	15.49	11.0	11.0	70.33	70.33	22.42	22.42
June	108.78	109.32	15.50	15.71	10.8	10.8	70.42	70.64	22.86	22.98
July	108.94	107.44	15.71	15.44	10.7	10.6	70.50	69.99	22.73	22.02
August	109.77	106.81	15.77	15.58	10.8	9.9	71.05	70.15	22.95	21.08
September	110.81	108.52	15.69	15.52	10.8	10.2	72.09	71.64	23.03	21.36
October	110.67	109.40*	15.76	15.56	10.6	10.3*	72.17	72.09*	22.74	21.75
November	110.80	111.18	15.93	15.78	10.3	10.8	72.42	72.53	22.45	22.87
December	112.02	111.94	15.88	15.93	10.9	10.7	72.70	73.21	23.44	22.80
January 1985	112.71	112.06	15.90	15.90	11.0	10.6	73.12	73.44	23.69	22.72
February	113.22	112.32	16.09	15.93	10.9	10.6	73.53	73.62	23.60	22.76
March	113.60	113.08	16.19	16.02	10.8	10.6	73.90	74.16	23.51	22.90
April	114.18	113.80	16.25	16.15	10.8	10.7	74.33	74.42	23.60	23.23
May	114.70	114.56	16.46	16.12	10.7	10.8	74.71	74.88	23.55	23.56
June	115.25	115.23	16.37	16.29	10.8	10.8	75.10	75.29	23.78	23.65
July	115.84	115.61	16.37	16.35	10.9	10.7	75.44	75.77	24.03	23.49
August	116.36	116.11	16.65	16.47	10.8	10.7	75.80	76.08	23.91	23.56
September	116.80	116.43	16.64	16.56	10.8	10.6	76.14	76.42	24.02	23.45

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BUSINESS ACTIVITY

	Manufacturers' Inventories		Durable Goods Orders		Non-Defense Capital Goods Orders		Non-Defense Capital Shipments	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	270.4	270.4	98.32	98.32	25.89	25.89	24.80	24.80
May	274.6	274.6	102.26	102.26	28.96	28.96	25.89	25.89
June	277.8	277.5	99.83	99.17	28.08	28.03	27.04	26.89
July	280.3	280.0	97.78	101.70	27.63	27.65	26.56	25.86
August	282.6	283.5	98.72	102.19	27.85	26.30	26.94	26.02
September	285.4	286.1*	99.63	102.80*	28.43	26.88*	27.47	26.25*
October	288.1	288.2	99.67	103.95	28.40	27.16	27.55	26.62
November	290.3	290.5	100.39	104.16	28.32	27.48	27.67	27.03
December	292.3	292.4	101.27	106.23	28.57	28.21	27.80	27.32
January 1985	294.8	294.1	103.43	104.69	29.18	28.05	28.15	27.49
February	297.1	295.8	103.76	105.02	29.20	28.36	28.46	27.73
March	299.8	297.9	104.68	106.43	29.53	28.83	28.79	27.96
April	302.2	299.8	103.78	105.89	29.50	28.62	28.85	28.15
May	305.7	302.3	105.14	107.16	29.63	28.94	28.93	28.42
June	307.8	304.5	104.88	108.22	29.71	29.16	28.93	28.71
July	310.4	307.1	106.62	108.86	30.12	29.43	29.01	29.02
August	313.2	309.2	107.18	109.23	30.28	29.71	29.50	29.38
September	315.7	311.5	107.50	108.85	30.37	29.66	29.76	29.52

	Business Inventories		Defense Shipments		Industrial Production		Capacity Utilization	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	541.1	541.1	5.99	5.99	162.2	162.2	81.5	81.5
May	545.9	545.9	5.75	5.75	162.7	162.9	81.5	81.6
June	550.8	546.8	5.92	5.98	164.1	164.4	82.0	82.2
July	556.3	551.2	6.06	5.99	165.2	165.8	82.3	82.7
August	560.5	556.2	6.18	6.25	166.3	166.2	82.6	82.7
September	564.7	560.1*	6.36	6.21*	166.5	166.0*	82.5	82.4*
October	569.3	565.0	6.35	6.26	166.2	166.8	82.1	82.6
November	573.9	569.8	6.43	6.35	166.7	167.5	82.2	82.8
December	578.1	574.5	6.52	6.44	167.3	168.0	82.4	82.9
January 1985	582.2	578.8	6.60	6.53	167.9	168.0	82.5	82.7
February	586.9	583.0	6.70	6.65	168.5	168.5	82.6	82.8
March	591.8	587.1	6.79	6.78	169.1	169.1	82.8	83.0
April	594.7	591.3	6.91	6.85	169.4	168.8	82.8	82.7
May	599.3	595.7	7.01	6.93	169.6	169.5	82.7	82.9
June	606.6	600.0	7.12	7.01	169.9	169.8	82.7	82.9
July	613.4	604.1	7.23	7.12	170.3	170.1	82.7	83.0
August	617.3	608.2	7.35	7.24	170.7	170.0	82.7	82.8
September	620.8	612.9	7.48	7.33	171.0	170.4	82.8	82.9

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CONSTRUCTION

	Housing Starts		Single Family Starts		Housing Permits		Construction Expenditures (Current)		Construction Expenditures (Real)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	2.015	2.015	1.196	1.196	1.758	1.758	305.3	308.6	189.3	188.9
May	1.794	1.794	1.151	1.131	1.745	1.745	311.3	316.4	194.3	193.4
June	1.886	1.877	1.068	1.084	1.776	1.776	310.6	315.3	195.8	193.8
July	1.763	1.763	1.036	1.001	1.624	1.565	314.1	311.2	196.9	191.0
August	1.707	1.537	1.015	0.904	1.582	1.508	317.4	311.7	198.0	190.9
September	1.696	1.537*	1.027	0.882*	1.556	1.454*	319.5	313.1*	198.4	191.9
October	1.728	1.470	1.058	0.863	1.573	1.378	321.6	309.5	199.4	189.2
November	1.714	1.445	1.040	0.857	1.582	1.357	320.6	307.5	198.3	187.4
December	1.701	1.447	1.028	0.875	1.542	1.328	319.4	307.4	197.0	186.5
January 1985	1.656	1.473	1.003	0.896	1.503	1.338	322.1	307.9	197.9	186.6
February	1.692	1.423	1.032	0.867	1.517	1.317	328.1	309.9	200.9	187.4
March	1.719	1.420	1.043	0.894	1.538	1.302	333.8	311.3	203.9	187.5
April	1.684	1.456	1.002	0.913	1.543	1.318	332.3	312.5	202.1	187.6
May	1.608	1.467	0.994	0.905	1.496	1.327	331.7	313.9	201.0	187.5
June	1.595	1.505	0.953	0.922	1.472	1.352	333.1	316.3	201.0	188.3
July	1.638	1.533	0.986	0.961	1.483	1.389	336.1	319.5	202.0	189.3
August	1.627	1.578	0.974	0.994	1.465	1.416	338.0	322.6	202.5	190.3
September	1.577	1.599	0.917	1.006	1.441	1.448	339.8	325.7	202.9	191.4

	Non-Residential		Public Construction		Residential Construction	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	117.0	117.5	54.6	54.5	133.7	136.6
May	121.6	122.8	55.5	55.2	134.2	138.4
June	122.4	121.4	57.0	57.5	131.2	136.4
July	124.4	119.7	56.9	56.2	132.8	135.3
August	126.3	120.0	57.5	56.2	133.6	135.4
September	128.1	121.3*	58.2	56.7*	133.2	135.1*
October	130.3	122.0	58.7	57.5	132.6	130.0
November	132.5	122.9	59.1	58.0	129.0	126.6
December	134.8	123.8	59.6	58.4	125.0	125.2
January 1985	136.9	124.9	60.0	59.1	125.2	123.9
February	138.9	126.0	60.3	59.6	128.9	124.3
March	141.0	127.1	60.5	60.1	132.3	124.1
April	142.6	128.1	60.8	60.6	128.9	123.8
May	144.1	129.0	61.1	61.0	126.5	123.9
June	145.7	130.2	61.5	61.3	125.9	124.8
July	147.4	131.4	62.3	61.8	126.4	126.3
August	148.7	132.7	63.1	62.4	126.2	127.5
September	150.1	134.0	63.8	63.0	125.9	128.7

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PRICES

	CPI-U (seasonally adjusted)		PPI Finished Goods (seasonally adjusted)		PPI-Industrial Commodities (unadjusted)		Estimated GNP Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	309.0	309.0	291.6	291.2	322.5	322.6	221.69	221.76
May	309.6	309.6	291.5	291.5	323.3	323.3	222.25	222.38
June	310.1	310.1	291.4	291.4	323.9	323.9	222.98	223.06
July	311.1	311.1	292.2	292.3	324.3	324.0	223.55	223.99
August	312.0	312.6	292.8	292.0	325.0	323.5	224.16	224.56
September	312.9	313.8*	293.3	291.4	326.3	322.3	225.01	225.23
October	314.5	314.7	294.4	293.1*	328.4	324.9*	225.93	226.14
November	316.0	315.7	295.5	294.0	328.6	325.6	226.89	226.94
December	317.6	316.8	296.6	295.1	328.9	325.9	227.85	227.86
January 1985	318.9	318.2	297.5	296.3	330.6	326.5	229.11	229.18
February	320.2	319.6	298.4	297.6	332.4	328.2	229.93	230.10
March	321.5	320.9	299.6	298.8	334.1	329.6	230.75	231.03
April	323.0	322.2	300.8	300.0	335.2	330.5	231.63	231.97
May	324.6	323.3	302.0	301.2	336.4	331.3	232.60	232.89
June	326.3	324.7	303.5	302.4	337.5	331.9	233.62	233.81
July	327.4	326.1	304.1	303.5	339.0	332.8	234.54	234.79
August	328.5	327.4	305.0	304.7	340.8	333.6	235.41	235.74
September	329.7	328.8	306.1	305.9	342.6	334.5	236.30	236.74

	Consumption Deflator		Consumer Durables		Consumer Nondurables		Consumer Services		Implicit Construction Deflator	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	219.1	219.2	179.1	179.1	217.2	217.2	234.9	235.0	161.3	163.4
May	219.1	219.2	179.6	179.8	216.6	216.5	235.7	235.9	160.2	163.6
June	219.3	219.2	179.5	179.6	216.0	215.5	236.5	237.0	158.6	162.7
July	220.0	220.2	179.8	179.2	216.5	216.4	237.7	238.3	159.5	162.9
August	220.8	221.3*	180.0	179.5*	217.1	217.2*	238.8	239.4*	160.3	163.2
September	221.7	222.0	180.2	180.1	217.7	217.8	240.0	240.5	161.0	163.6
October	222.5	222.8	180.5	180.6	218.4	218.5	241.1	241.5	161.3	164.1
November	223.3	223.5	180.9	181.1	219.0	219.2	242.1	242.6	161.7	164.4
December	224.2	224.3	181.3	181.5	219.6	219.9	243.0	243.7	162.1	164.8
January 1985	225.0	225.3	181.7	182.1	220.3	220.5	244.2	245.0	162.8	165.0
February	225.7	226.3	182.0	182.5	221.0	221.3	245.5	246.3	163.3	165.4
March	226.4	227.2	182.3	182.9	221.7	222.1	246.8	247.5	163.7	166.0
April	227.3	228.1	182.6	183.4	222.4	222.9	247.9	248.8	164.4	166.6
May	228.2	228.9	183.0	183.8	223.0	223.6	249.0	250.0	165.0	167.4
June	229.3	229.9	183.4	184.3	223.7	224.3	250.1	251.3	165.7	168.0
July	230.1	230.9	183.9	184.9	224.4	225.0	251.3	252.5	166.4	168.8
August	230.9	231.8	184.5	185.5	225.0	225.7	252.5	253.8	166.9	169.5
September	231.7	232.8	185.1	186.0	225.6	226.5	253.6	255.1	167.5	170.2

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MISCELLANEOUS

	Merchandise Trade Balance		Leading Indicators		Estimated GNP		Estimated GNP (1972 $)		IVA (annual rate)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	-10.95	-10.95	168.3	168.2	3618	3618	1632	1631	7.9	7.8
May	-7.62	-7.62	168.9	168.6	3643	3642	1639	1638	9.3	8.5
June	-7.72	-7.72	167.4	166.7	3679	3675	1650	1648	8.0	6.9
July	-9.42	-14.06	167.0	163.7	3705	3702	1657	1653	6.2	8.8
August	-7.63	-9.86	167.5	164.5	3725	3716	1662	1655	4.3	5.2
September	-8.78	-10.19*	168.2	164.8	3746	3728	1665	1655	3.6	5.9
October	-8.93	-10.62	168.0	165.2	3768	3752	1668	1659	9.9	7.5
November	-9.08	-9.85	168.5	165.0	3785	3785	1668	1668	16.7	8.8
December	-8.92	-10.28	169.5	165.8	3822	3812	1677	1673	19.9	9.6
January 1985	-7.85	-11.04	169.8	166.5	3847	3845	1679	1678	18.7	11.4
February	-8.63	-11.83	170.5	167.3	3875	3877	1685	1685	17.5	11.0
March	-10.32	-11.26	170.8	167.6	3914	3909	1696	1692	16.2	11.3
April	-8.86	-10.61	171.3	167.5	3928	3932	1696	1695	18.4	12.5
May	-9.25	-10.88	171.8	168.1	3952	3958	1699	1699	20.3	12.0
June	-9.02	-11.25	172.2	168.5	3977	3983	1702	1703	20.1	11.3
July	-8.95	-12.02	171.5	169.3	4002	4005	1706	1706	20.8	13.8
August	-8.82	-11.65	171.2	169.7	4029	4030	1711	1710	21.1	14.7
September	-8.76	-11.14	170.8	170.1	4055	4059	1716	1714	20.8	15.2

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FINANCIAL MARKETS

	Monetary Base		M1		M2		Federal Funds		T-Bills (6 Mos.)	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	208.4	208.4	535.3	535.3	2242.2	2242.7	10.29	10.29	9.84	9.84
May	210.0	210.0	541.0	541.0	2259.6	2258.4	10.32	10.32	10.31	10.31
June	212.9	212.8	546.2	546.2	2273.0	2272.0	11.06	11.06	10.51	10.51
July	213.0	212.5	547.3	545.6	2285.5	2281.4	11.15	11.23	10.50	10.52
August	214.1	212.7	550.2	546.4	2296.2	2290.1	11.31	11.64	10.46	10.61
September	215.3	215.0	553.3	549.0	2307.5	2304.7	11.32	11.30	10.55	10.47
October	216.7	216.3*	557.8	553.6*	2322.4	2325.4*	11.30	10.53*	10.43	10.23
November	218.3	217.5	561.2	557.5	2343.6	2342.8	11.35	10.55	10.47	10.17
December	219.9	218.8	564.6	562.1	2366.2	2362.9	11.33	10.87	10.52	10.36
January 1985	221.2	219.6	568.3	564.8	2384.6	2378.4	11.62	11.23	10.67	10.57
February	222.6	220.7	572.1	569.4	2400.2	2401.2	11.76	11.38	10.76	10.65
March	224.1	221.5	575.8	572.6	2415.9	2419.4	11.91	11.66	10.85	10.84
April	225.5	223.1	578.9	577.8	2435.7	2439.4	12.27	11.82	11.02	11.03
May	226.9	224.5	582.4	579.7	2456.9	2453.1	12.53	11.89	11.20	11.01
June	228.3	226.0	586.1	582.0	2477.3	2465.9	12.46	11.56	11.17	10.78
July	229.7	227.2	589.0	585.3	2495.2	2484.7	12.02	11.53	10.72	10.71
August	231.0	228.3	591.8	587.2	2509.8	2496.2	11.75	11.31	10.43	10.58
September	232.3	229.6	594.6	590.8	2524.7	2514.3	11.48	11.38	10.29	10.53

	Aaa (Seasoned)		Municipals (Bond Buyer)		(3 Month) Commercial Paper		90 Day CD's		Prime Rate	
	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.	Fore.	C.E.
April 1984	12.81	12.81	10.19	10.19	10.18	10.18	10.41	10.41	11.93	11.93
May	13.28	13.28	10.49	10.49	10.65	10.65	11.11	11.11	12.39	12.39
June	13.55	13.55	10.67	10.67	10.98	10.98	11.34	11.34	13.00	12.60
July	13.43	13.44	10.48	10.42	11.18	11.19	11.52	11.56	13.00	13.00
August	13.07	12.87	10.13	10.06	11.30	11.18	11.73	11.47	13.00	13.00
September	12.62	12.66	9.72	10.03	11.32	11.04	11.80	11.29	13.00	13.00
October	13.06	12.56*	10.12	10.28*	11.30	10.46*	11.71	10.78*	13.00	12.79*
November	13.39	12.68	10.47	10.52	11.26	10.43	11.59	10.67	13.00	12.50
December	13.72	12.74	10.84	10.70	11.25	10.78	11.55	11.03	13.00	12.50
January 1985	13.52	12.99	10.68	10.90	11.58	11.07	11.88	11.29	13.37	12.73
February	13.46	13.11	10.57	11.01	11.71	11.25	11.99	11.51	13.50	13.02
March	13.51	13.28	10.61	11.13	11.90	11.52	12.17	11.78	13.78	13.50
April	13.59	13.43	10.74	11.21	12.07	11.76	12.38	11.99	14.00	13.50
May	13.92	13.41	11.14	11.13	12.36	11.93	12.63	12.26	14.36	13.85
June	13.74	13.27	10.94	11.04	12.30	11.74	12.65	12.05	14.50	14.00
July	13.41	13.15	10.54	10.80	11.98	11.65	12.36	11.94	14.43	14.00
August	13.17	12.96	10.30	10.69	11.74	11.53	12.07	11.83	13.93	13.76
September	13.08	12.84	10.20	10.53	11.39	11.48	11.68	11.71	13.42	13.50

Fore. = August Forecast
C.E. = Current Expectations
* = This item and those beyond it are projections.